

# Commonwealth of Massachusetts



## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2007*

***Martin J. Benison, CGFM***  
*Comptroller of the Commonwealth*

*This document and related information are available at*



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*The Office of the Comptroller's home page is [www.mass.gov/osc](http://www.mass.gov/osc)*



## Massachusetts

by Arlo Guthrie

*Like a dream in the night  
As the snow settles white  
There's a fire burning bright  
In Massachusetts  
And there's a house upon a hill  
That keeps us from the chill  
And by the grace of God  
We will be in Massachusetts*

*-Chorus-*

*You can tell me about the times you spent  
In the Rockies and on the plains,  
Please don't think that I'm the last to say  
That there ain't lots of other places  
In this world that still remain  
Beautiful and unchanged  
But they're just not the same  
The sun comes up to meet the dawn  
And there's a day that must go on  
There's another night that's gone  
In Massachusetts  
And I could spend all of my days  
And remain each day amazed  
At the way each day is phrased  
In Massachusetts*

*-Chorus-*

*Now if you could only see  
I know you would agree  
There ain't nowhere else to be  
Like Massachusetts  
And there's a house upon a hill  
That keeps us from the chill  
And by the grace of God  
We will be in Massachusetts  
Come on tell me about the time you spent  
In the Rockies and on the plains  
And please don't think that I'm the last to say  
That there ain't lots of other places  
In this world that still remain  
Beautiful and unchanged  
But they're just not the same as Massachusetts*

*Arlo Guthrie's song "Massachusetts" is the official folk song  
of the Commonwealth.*

*Cover:*

Fountain Pond State Park, Great Barrington  
Courtesy of the Massachusetts Department of Conservation and Recreation (DCR)  
Photograph by Kindra Clineff©, for the DCR

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Historical Atlas of Massachusetts, edited by Richard W. Wilke and Jack Tager, University of Massachusetts Press  
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New England Wildflower Society  
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*and the following Commonwealth of Massachusetts' departments and agencies:*

Department of Agricultural Resources  
Department of Conversation and Recreation  
Department of Fish and Game, Riverways Program, Massachusetts Division of Fisheries and Wildlife (MassWildlife)  
Executive Office of Energy and Environmental Affairs, Division of Conservation Services  
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# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

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*Courtesy of Wikipedia  
The Free Encyclopedia*



**Spectacle Island** is an island in Boston Harbor, situated some 4 miles offshore of downtown Boston, Massachusetts. The island has a varied history, and today is a public park, forming part of the Boston Harbor Islands National Recreation Area. It is served throughout the year by ferries from Boston, and on weekends and summer weekdays by a shuttle boat to and from the other surrounding islands.

The island was initially composed of two small drumlins connected by a spit, with an approximate size of 49 acres. The name is believed to derive from its then-resemblance to a pair of spectacles. However, dumping of trash and dirt, together with subsequent landscaping, have resulted in a significantly larger island with a permanent size of 85 acres, plus an intertidal zone of a further 28 acres. The island is now composed of two artificial earth mounds, terraced with retaining walls, roads and newly planted vegetation. With a height above sea level of 157 feet, Spectacle Island is now one of the highest points on Boston Harbor.

# *Introductory Section*

*Letter of Transmittal*

*Acknowledgements*

*Commonwealth Organizational Structure*

*Constitutional Officers*

*Advisory Board to the Comptroller*

*Certificate of Achievement*

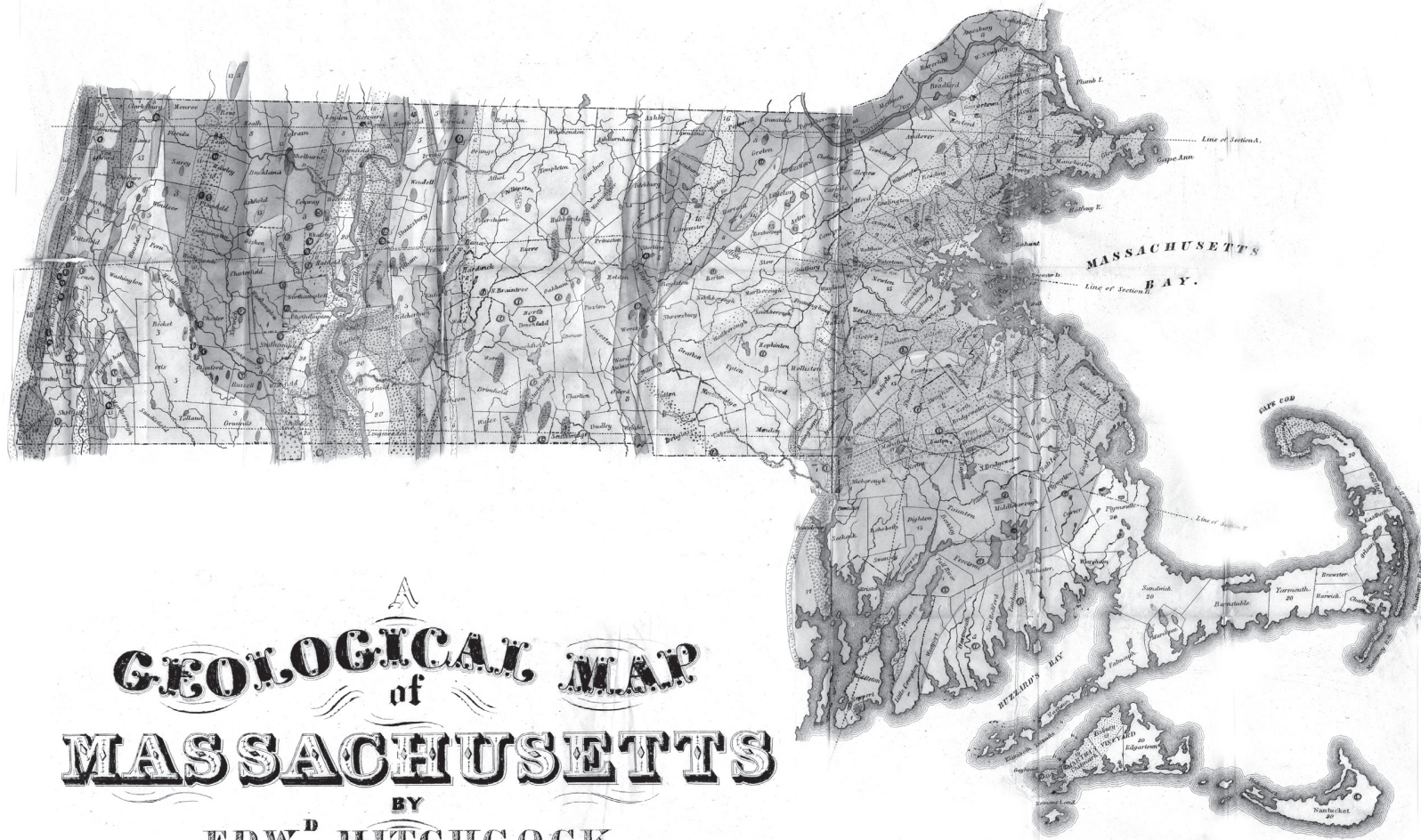


*View from Spectacle Island*

*Photograph by Wing Chan*

The Boston Harbor Island group includes The Four Brewsters, Bumpkin, Calf, Deer, Gallop's, George's (used for thousands of Confederate prisoners of war during the Civil War), Grape, The Graves, Green, Hangman, Long, Lovell's, Nixes Mate, Paddock's, Raccoon, Rainsford, Sheep, Slate, Spectacle and Thompson. Some islands have been made part of the mainland by the great amount of landfill that has gone on over the years. Governor's Island, where the first apple and pear trees in America were planted, is now a part of Boston's Logan International Airport. Most of the islands have been used for farming, resort-recreation areas, public facilities, or fortifications.





# A **GEOLOGICAL MAP** of **MASSACHUSETTS** BY **EDW. D. HITCHCOCK**

**1841**

FOURTH EDITION

Executed under the direction of the Government  
 of the State.

*E.W. Thayer's Lithography, Boston.*

To the lifelong resident no less than to the occasional visitor, mention of Massachusetts is likely to conjure up any number of images.

To some the state is chiefly notable for the legacy of its colonial past and its central role in the birth of the nation. For such people, Massachusetts is the home of Lexington and Concord, redcoats and minutemen, the Sons of Liberty and the founding fathers. Others think of the state primarily as a center of commerce, medicine, culture and learning—the Massachusetts of Boston Brahmins and Cambridge intellectuals, of Emerson, Melville, and Thoreau.

Still others associate the state with its climate and geography, from the serene beauty of Cape Cod in the summer to the stunning vibrancy of the Berkshires in the fall.

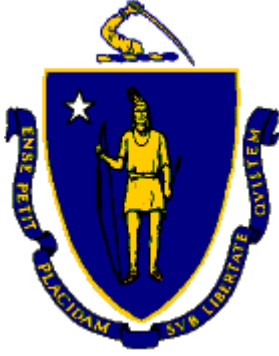
Sense of place and awareness of time are two essential aspects of the human condition. They help us understand who we are and how we came to be that way, linking past and present, the spatial and the physical world, in a single

unbroken continuum. As such, they provide the foundation for a healthy civilization and an educated citizenry.

In the mid-eighties, James A. Hafner and Richard W. Wilkie of the Department of Geology and Geography at the University of Massachusetts, Amherst, began a project that resulted in the publication of the Historical Atlas of Massachusetts. One of their goals was to introduce people to the history of Massachusetts in its geographic setting.

The effort was a response to the lament, so often heard now from politicians, businesspeople, and educators alike, that our children have lost interest in the world in which they live, that they know nothing about who they are or where they come from, that they can't find their own home state on a map.

The Atlas was one of the inspirations for this year's financial statements, which will highlight some of Massachusetts' diverse physical landscape and our stewardship of this wonderful place we call home.



*Martin J. Benison, Comptroller  
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***December 24, 2007***

***To the Citizens of the Commonwealth of Massachusetts,  
Governor Deval L. Patrick, Lieutenant Governor Timothy P.  
Murray, and Honorable Members of the General Court***

I am pleased to transmit the Commonwealth's fiscal year 2007 (FY07) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The report is the primary means of reporting the Commonwealth's financial activities. The objective of this report is to provide a clearer picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the report includes as "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results of operating on that basis from FY07 are found in the Statutory Basis Financial Report (SBFR) separately issued this past October. The SBFR report documents compliance with the legislatively adopted budget at a fund level. Further documentation is found within the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Each state maintains different rules for budgetary reporting and therefore the SBFR should not be used for comparison across states.

The fund perspective statements on pages 42 to 45 present the governmental operations on a modified accrual basis of accounting. The fund perspective is designed to measure inter-period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long-term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities as they come due. This fund perspective provides results similar to the statutory basis financial statements published in October.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business activities in a statement of net assets and a statement of activities, presenting all functions on a full accrual basis of accounting.

All capital assets, including road and bridge infrastructure, are added to the statements as are all long-term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government-wide statements, the balance sheet has been organized into a “net assets format.” This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net assets.

The Commonwealth’s government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by activity, are netted against fees, fines, grant revenues and assessments generated to fund each activity in an attempt to derive the net cost to the taxpayer of each activity. The format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

This CAFR is presented in three sections: **Introductory, Financial and Statistical**. This **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains a Management’s Discussion and Analysis (MD&A) section, and the Commonwealth’s Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The Commonwealth’s MD&A can be found immediately following the independent auditors’ report. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

## PROFILE OF THE COMMONWEALTH

The Commonwealth of Massachusetts was the sixth of the original 13 colonies to ratify the United States Constitution, joining the United States on February 6, 1788. Boston, the capital of the Commonwealth since its founding, dates from 1630. The Commonwealth has an area of 8,257 square miles. Geographically, the Commonwealth includes 351 cities and towns. The largest city is the capital, Boston. Employment is largely in the education, health services, wholesale and retail trade, warehousing and public utilities sectors. The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted. It is the oldest written Constitution now in use in the world. It specified three branches of Government: Executive, Legislative, and Judicial. “The Great and General Court,” elected every two years, is made up of a Senate of forty members and a House of Representatives of one hundred and sixty members. The Massachusetts Senate is the second oldest democratic deliberative body in the world.

The table below reconciles the fund balances on three basis of accounting, the statutory basis presented in separately issued financial statement this past October, the fund basis, and entity wide basis statements, included in this report.

**Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Assets**  
(Amounts in millions)

**Governmental Funds - Statutory Basis, June 30, 2007:**

|  |    |            |
|--|----|------------|
| Budgeted Fund Balance.....                     | \$ | 2,901.0    |
| Non Budgeted Special Revenue Fund Balance..... |    | 1,734.5    |
| Capital Projects Fund Balance.....             |    | <u>5.7</u> |

**Governmental Fund Balance - Statutory Basis, June 30, 2007..... \$ 4,641.2**

|   |  |            |
|---|--|------------|
| Plus: Expendable Trust and Similar Fund Statutory Balances that are |  |            |
| considered Governmental Funds for GAAP reporting purposes.....      |  | 395.5      |
| CA/T Owner Controlled Insurance Program Net Assets.....             |  | 100.1      |
| Trust fund reclassified as Permanent trust fund.....                |  | <u>5.0</u> |

**Adjusted Statutory Governmental Fund Balance..... 5,141.8**

Short term accruals, net of allowances and deferrals for increases /(decreases):

|  |    |         |
|--|----|---------|
| Taxes, net of refunds and abatements.....    | \$ | 1,524.5 |
| Tobacco Settlement Agreement receivable..... |    | 145.0   |
| Medicaid.....                                |    | (264.1) |

Other short term accruals:

|   |  |                |
|---|--|----------------|
| Assessments and other receivables.....                  |  | 123.7          |
| Amounts due to authorities and municipalities, net..... |  | (409.9)        |
| Claims, judgments and other risks.....                  |  | (38.0)         |
| Uncompensated care liability.....                       |  | (155.9)        |
| Workers' compensation and group insurance.....          |  | (126.5)        |
| Other accruals, net.....                                |  | <u>(110.5)</u> |

**Net increase to governmental fund balances..... 688.3**

**Massachusetts School Building Authority fund balance..... 1,905.8**

**Total changes to governmental funds..... 2,594.1**

**Governmental fund balance (fund perspective)..... \$ 7,735.9**

|   |  |          |
|---|--|----------|
| Plus: Capital assets including infrastructure, net of accumulated depreciation..... |  | 18,549.6 |
| Deferred inflows of resources, net of other eliminations.....                       |  | 539.7    |

Long term accruals:

|  |  |                  |
|--|--|------------------|
| Pension cumulative over / (under) funding.....                                     |  | (75.6)           |
| Massachusetts School Building Authority debt and school construction payables..... |  | (8,667.5)        |
| Assets to be transferred related to the Central Artery / Tunnel project.....       |  | (7,363.2)        |
| Long term debt.....  |  | (18,737.0)       |
| Other Long term liabilities.....   |  | <u>(1,578.7)</u> |

**Total governmental net assets (entity wide perspective)..... \$ (9,596.8)**

## **REPORTING ENTITY**

The financial statements incorporate activity from over 150 departments. These departments include the various agencies, boards, and commissions, the 25 institutions of higher education, the judicial and legislative branches of government, and constitutional offices. The departments record their daily financial operations in the state accounting system, MMARS, operated by the Office of the Comptroller.

In addition, the financial statements include 35 independent public authorities. These entities, along with the State Employees' and Teachers' Retirement systems are defined as component units and meet the criteria for inclusion in the Commonwealth's reporting entity in accordance with GAAP. They are further described in Note 1 to the basic financial statements. The Massachusetts School Building Authority is blended into the Commonwealth's operations. A small authority, the Massachusetts International Trade Council has been judged not to be a component unit and is not included in the Commonwealth's audited financial statements for FY07. On April 4, 2007, the Franklin Regional Transit Authority acquired the assets and operations of the Greenfield Montague Transportation Area. The Franklin Regional Transit Authority for FY07 reported the net position and results of operations of the former Greenfield Montague Transportation Area.

## **ECONOMIC CONDITION**

During FY06, for the first time since June of 1995, the Commonwealth's unemployment rate exceeded that of the United States as a whole. This lag continued into FY07. The Commonwealth's rate was above the national rate by 1.3% to 1.4% during the fall of 2006. In April 2007, Massachusetts was less than the country, but only by 0.1%. As of October of 2007, the Commonwealth's rate was 4.3%, 0.2% less than it was a year earlier. The Commonwealth continues to contain a large employment base of education, health and human services positions that stabilize the economy. Per capita net income remains at least 26% ahead of the national average. However, concerns are long held in the Commonwealth about housing affordability costs. Further economic data is found in the statistical section to this report.

The Comptroller General of the United States, David Walker, has elevated the discussion of fiscal sustainability to a national debate. The Federal government, the States and local governments all will face sustainability issues in the future. Walker paints an ominous picture showing that federal discretionary spending – where the Commonwealth receives its federal revenues – has dropped from 67% in 1966 to 38% of the federal budget in 2006. The 38% includes the costs of defense. The costs of social insurance programs and the net interest charges of the federal government will constrain state and local levels in the future to the point where the fiscal burden of these programs, according to the Walker is \$440,000 per person. We reported in October that on a statutory basis, the Commonwealth spent more than it received in its budget of approximately \$308 million in FY07. Similarly, the FY08 budget relies on one time funding and is currently projected to end the year with an operating loss of \$395.4 million. The Commonwealth, like



most governments, relies heavily on federal revenues. Finding either new streams of revenue or ways to streamline spending in the future is the only way to start to prepare for the downturn in federal revenues that is surely coming in the future.

## **INDEPENDENT AUDIT**

The Commonwealth's independent auditors, KPMG LLP, together with subcontractors and assistance by the Office of the State Auditor (OSA) have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2007. OSA also plays a significant role in the audit of the Schedule of Federal Financial Assistance of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133. The independent auditors' report is presented in the Financial Section.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth, which encompasses all of the Commonwealth's financial operations. A more complete discussion of this work can be found in the State Auditor's annual report available on their web site: <http://www.mass.gov/sao>.

The Office of the Comptroller prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement.

I would like to express my thanks to the many dedicated employees within the Office of the Comptroller. Continuing to carry out our mission and meet the goals that are set, meant another successful year. I am proud to have them all on my team as another year of initiatives is now underway.

Respectfully submitted,

Martin J. Benison  
Comptroller of the Commonwealth

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*Accountant*

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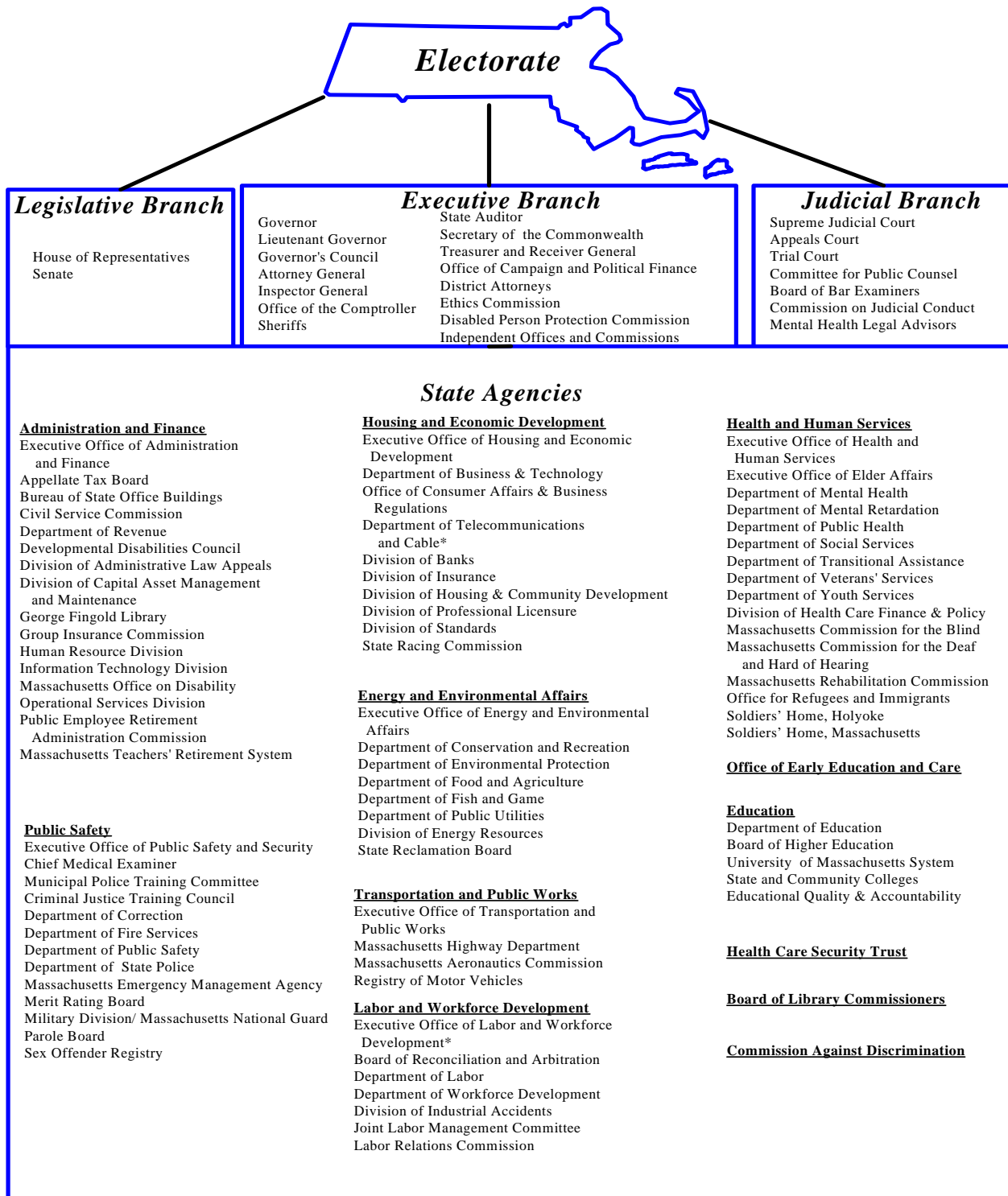
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*Art Direction*  
*Director Resource Management*

Vinh Nguyen  
*Art Design*



As of June 30, 2007

\*Established April 12, 2007 in accordance with Article 87 of the Massachusetts Constitution

## **CONSTITUTIONAL OFFICERS**

Deval L. Patrick  
*Governor*

Timothy P. Murray  
*Lieutenant Governor*

William F. Galvin  
*Secretary of State*

Martha Coakley  
*Attorney General*

Timothy P. Cahill  
*Treasurer and Receiver-General*

A. Joseph DeNucci  
*Auditor*

## **LEGISLATIVE OFFICERS**

Therese Murray  
*President of the Senate*

Salvatore F. DiMasi  
*Speaker of the House*

## **JUDICIAL OFFICERS**

Margaret H. Marshall  
*Chief Justice, Supreme Judicial Court*

Phillip Rapoza  
*Chief Justice, Appeals Court*

Robert A. Mulligan  
*Chief Justice for Administration and Management, Trial Court*

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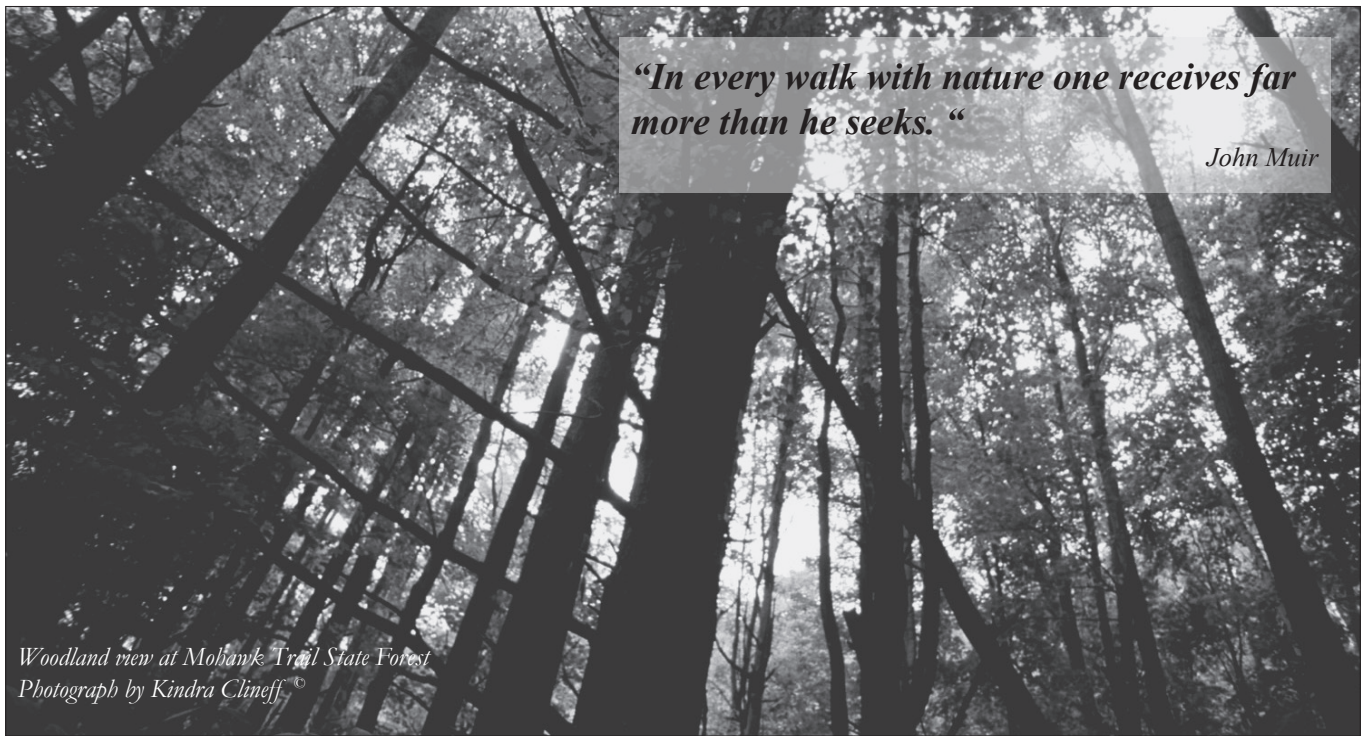
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*“In every walk with nature one receives far more than he seeks. “*

*John Muir*

*Woodland view at Mohawk Trail State Forest  
Photograph by Kindra Clineff ©*

### **Mohawk Trail State Forest, Charlemont**

Over 6,000 acres of mountain ridges, deep gorges and tall old-growth trees support a diversity of plant and animal life. The state forest is located along and named for the Mohawk Trail, a historic Native American foot path that connected the Connecticut and Hudson River Valleys.



*Natural Bridge  
Photograph by Kindra Clineff ©*



*DCR File Image ©*

**Douglas State Forest** also includes a rare example of Atlantic White Cedar swampland. A 5-acre portion of this swamp is designated as a Massachusetts Wildland.

### **Natural Bridge State Park, North Adams**

A geologic wonder is located at this 48 acre park, the only naturally formed white marble arch and man-made white marble dam in North America. The “natural bridge” for which the park is named, according to geologists, is 550 million year old bedrock marble, carved into an arch by the force of glacial melt water over 13,000 years ago and one of the best places in New England to demonstrate the effects of glaciation. Romantic writer, Nathaniel Hawthorne, visited here in 1838 and recorded his experience about Hudson’s Cave (or Falls) in *An American Notebook*, “The cave makes a fresh impression on me every time I visit it ... so deep, so irregular, so gloomy, so stern.” The site was an active commercial quarry from 1810 to 1947, producing coarse-grained white marble used in local buildings and cemeteries. From 1950 to 1983 it was a privately-owned and popular roadside tourist attraction off the Mohawk Trail.



# Certificate of Achievement for Excellence in Financial Reporting

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For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

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*Charles S. Cox*

President

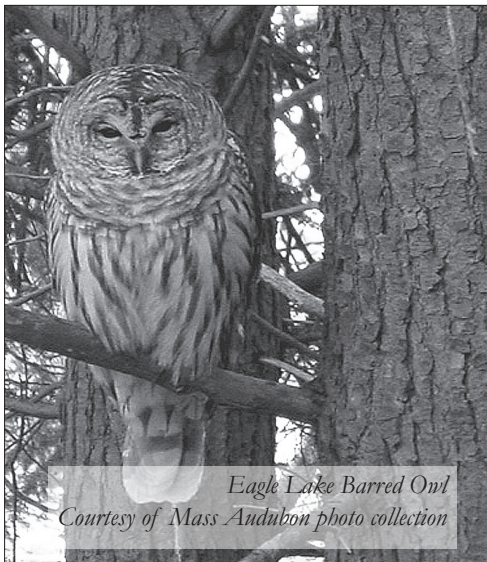
*Jeffrey R. Emer*

Executive Director

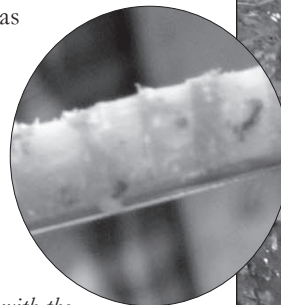


Melding traditional forest management techniques with current ecological understanding, Wachusett Reservoir watershed foresters have begun transforming a plantation-heavy, relatively even-aged forest into a multi-aged mosaic, diverse in native species. Forest stand rotation ages and regenerating patch sizes are keyed to naturally occurring disturbance patterns and timing. The management goal is to regenerate one percent of the acreage annually watershed-wide, while at a smaller scale providing diverse patterns of three or more adjacent age classes.

By compiling information from hand-painted planting maps from the early years of the Reservoir, hand-drawn stand maps compiled over the last 20 years, analysis of recent digital aerial orthophotographs, and data from the arduous task of coring thousands of trees, Wachusett foresters have firmly established the precise age structure of the forests they manage. Using a blend of old boots-and-paper field techniques with 21st century database and computer-aided mapping, they continue to update this age structure data as new lands are added and old stands are harvested.



*Eagle Lake Barred Owl  
Courtesy of Mass Audubon photo collection*



*This sequence shows the tree coring process with the extracted core. The White Pine core shows distinct growth rings revealing the tree's age. Lighter areas denote spring growth and darker areas fall/winter growth.*

*Photographs courtesy of Greg Buzzell  
DCR/DWSP Forester*



### Mass Audubon, Holden

Mass Audubon works to protect the nature of Massachusetts for people and wildlife for 32,000 acres of conservation land. Mass Audubon was founded in 1896 to stop the slaughter of birds for use on women's fashions. Today it's the largest conservation organization in New England.

DCR Watershed forest managers, especially sensitive to water quality concerns as well as long-term sustainability, have been meeting FSC Green Certification standards since 2004. The use of Best Management Practices minimizes erosion, assuring clean water and protecting stream and wetland habitats for rare native flora and fauna. DCR forest management is one part of the process of providing high quality drinking water to the 2.5 million users in the Metropolitan Boston area.



# Financial Section

*Independent Auditors' Report*

*Management's Discussion and Analysis*

*Basic Financial Statements*

*Notes to the Basic Financial Statements*

*Required Supplementary Information Other Than Management's Discussion and Analysis*

*Other Supplementary Information*



*Courtesy of RE Johnson  
and Massachusetts Audubon*



*Bird-Foot Violets  
Courtesy of Massachusetts Wildlife  
Photograph by Bill Byrne*

Established as the Society for the Protection of Native Plants in 1900 by Amy Folsom and a group of Boston women, New England Wild Flower Society is America's oldest plant conservation organization.

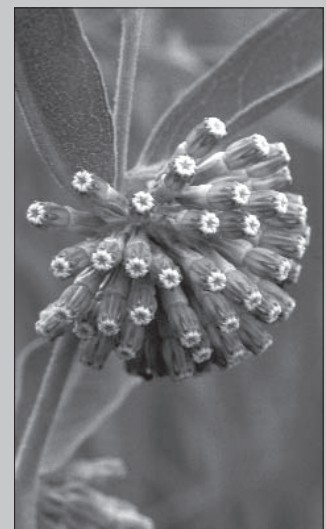
In 1965, Garden Founder Will C. Curtis deeded Garden in the Woods to the Society. The 45 acre native plant botanic garden in Framingham, 20 minutes from Boston, is the Society's headquarters and living museum.

In 2003 the Society opened Nasami Farm & Sanctuary in Whately, Massachusetts to the public. It now raises more than 100,000 plants each year and is the future home of the Native Plant Center.

With nearly 1,500 volunteers in the field, plant conservation and environmental stewardship is at the heart of the Society's work. It runs the largest public native plant studies program in America, offered year-round. The Society offers 700 nursery-propagated and nursery-grown native species and cultivars at the Society's nurseries – the largest in the north-east. To learn more about New England Wild Flower Society at [www.newenglandwild.org](http://www.newenglandwild.org).



*All photography courtesy of New England Wild  
Flower Society*





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## **INDEPENDENT AUDITORS' REPORT**

Mr. Martin Benison, Comptroller  
The Commonwealth of Massachusetts  
Boston, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2007, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, the State Colleges and certain of the Community Colleges all of which are major enterprise funds and represent 71% and 62%, respectively, of the assets and revenues of the business-type activities. We did not audit 45% and 49%, respectively, of the assets and revenues of the Community Colleges major enterprise fund. We did not audit the financial statements of the Massachusetts Municipal Depository Trust which represent 5% and 30% of the total assets and total revenues (including additions and other financing sources) of the aggregate remaining fund information. Additionally, we did not audit the financial statements of certain nonmajor component units, which represent 15% and 21%, respectively, of the total assets and total revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Massachusetts Development Finance Agency, Massachusetts Technology Park Corporation, Massachusetts Community Economic Development Assistance Corp, Massachusetts Housing Partnership Fund, and the Commonwealth Zoological Corporation, all of which are nonmajor component units, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.



In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

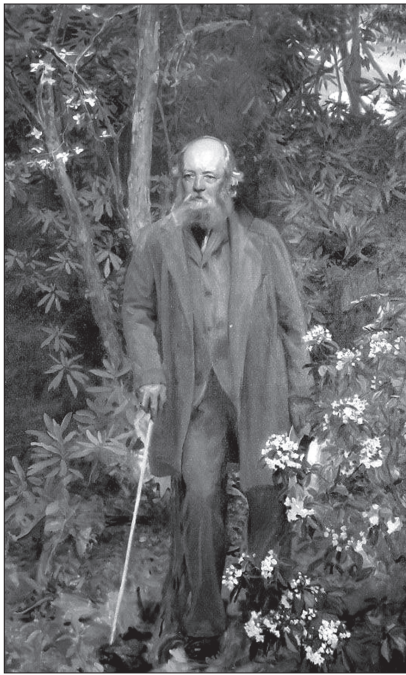
In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2007, on our consideration of the Commonwealth of Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Required Supplementary Information, listed in the accompanying table of contents, are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Massachusetts' basic financial statements. The introductory section, other supplementary information and statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 24, 2007





Beyond the natural beauty Frederick Law Olmsted (1822-1903) harnessed or redesigned in his many works, perhaps his greatest legacy is the social vision and the unwavering belief in democracy which he brought to his profession - a belief that parks could serve as meeting grounds for people of different backgrounds and classes. In the Emerald Necklace, this belief has been achieved. Working in an age of urbanization and industrialization, Olmsted saw parks as the "self-preserving instinct of civilization." He believed in the value of nature to restore the human mind and spirit; "to bring peace and refreshment to the city dweller."



Throughout almost twenty years of work on the Necklace (1878-1896), Olmsted created special retreats -- places for both active and passive recreation; green and open spaces offering relief and refreshment from the pressures and tensions of everyday life.

*"We want a ground to which people may easily go when the day's work is done, and where they may stroll for an hour, seeing hearing and feeling nothing of the bustle and jar of the streets, where they shall, in effect, find the city put far away from them..." (Frederick Law Olmsted, 1870)*

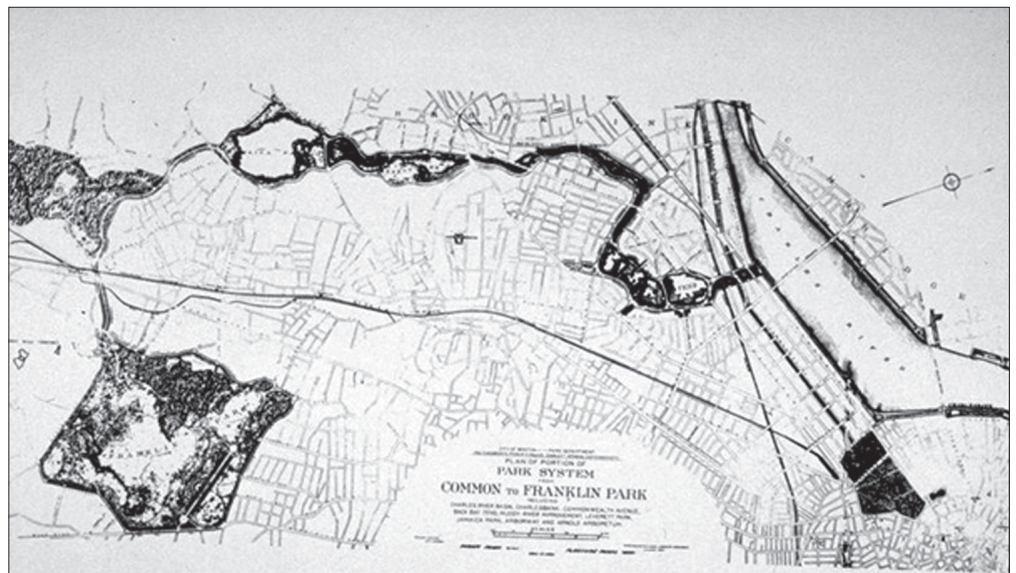
It took civic visionary Frederick Law Olmsted, Sr. (1822-1903) almost twenty years (1878-1896) to create the six parks now known as the Emerald Necklace. The Back Bay Fens, Riverway, Olmsted Park, Jamaica Park, Arnold Arboretum and Franklin Park stretch five miles from the Charles River to Dorchester and make up over 1,000 acres of parkland.



*Arnold Arboretum*

The Necklace comprises half of the City of Boston's park acreage, parkland in the Town of Brookline, and parkways and park edges under the jurisdiction of the Commonwealth of Massachusetts. More than 300,000 people live within its watershed area.

The Emerald Necklace is the only remaining intact linear park designed by Frederick Law Olmsted, Sr., America's first landscape architect. As such, it is listed on the National Register of Historic Places. Green and open spaces, rivers and ponds, and a wealth and diversity of trees, shrubs, flowers, wildlife habitat, riparian life, bridges and other structures make up this urban jewel.



*Original Olmsted map depicting the park system (circa 1878)*

*Photographs courtesy of The Emerald Necklace Conservancy*



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## Management's Discussion and Analysis

This analysis, prepared by the Office of the Comptroller, offers readers of the Commonwealth's financial statements a narrative overview of the activities of the Commonwealth for the fiscal year ended June 30, 2007 (FY07). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, and with the Commonwealth's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board (GASB), which provides preparers with guidelines on what must be included in and excluded from this analysis.

### Financial Highlights – Primary Commonwealth Government

#### *Government-Wide Highlights*

- ◆ **Net Assets** – The liabilities of the Commonwealth exceeded its assets at the end of FY07 by over \$5.2 billion, an improvement of over \$1.3 billion during the fiscal year. Of the \$5.2 billion deficit amount, “unrestricted net assets” is reported as a negative \$10.4 billion, offset by \$3.3 billion in “restricted net assets”. There are two primary reasons for negative unrestricted net assets. Upon completion, the Central Artery / Third Harbor Tunnel (CA/T) will be owned by the Massachusetts Turnpike Authority and the Massachusetts Port Authority. The Commonwealth, however, is paying for the construction of these assets and retains a large amount of related debt. Similarly, the Commonwealth has a liability of \$4.5 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA). MSBA will begin approving grants in FY08. Because of the statutory prohibition of the MSBA from accepting applications for new school construction until July 1, 2007, this overall liability of \$4.5 billion decreased by \$1.8 billion during FY07 due to grant payments made to municipalities during the year and reductions of grant payment obligations due to audits done by MSBA. During the fiscal year, significant restricted net asset balances were set aside for unemployment benefits and debt retirement.
- ◆ **Health Care Legislation** – On April 12, 2006, the Commonwealth enacted “An Act Providing Access to Affordable, Quality, Accountable Health Care” (commonly known as “Health Care Reform”). This act was in response to a notification from the federal Centers for Medicare and Medicaid Services (CMS) that a federally approved plan for reducing the number of uninsured individuals in the Commonwealth needed to be in place by July 1, 2006 in order for federal funding to be made available to the Commonwealth for fiscal year 2007 and beyond. This new law was approved by CMS in July 2006. The approval secures \$385 million of federal Medicaid revenue that was partially received in FY06, was continued to be received in FY07 and will be received in FY08. The legislation is projected to provide health insurance coverage for 95% of the Commonwealth's uninsured by 2009, reducing reliance on the Commonwealth's uncompensated care pool. The various changes in funding streams connected to the Health Care Reform act caused a reduction in charges for services of \$477 million from FY06 to FY07.

- ◆ **Post-Employment Benefits Other than Pensions – (OPEB) –**  
New accounting standards will require the Commonwealth to begin disclosing its liability for OPEB and the status of its efforts to fund that liability in its FY08 financial reports. An initial valuation report by an independent actuarial firm of the Commonwealth's liability for these health care and life insurance benefits was released in June of 2006. The report presented two separate calculations of the Commonwealth's OPEB liability depending on whether the liability would be prefunded or remain on a pay-as-you-go (PAYGO) basis.

The Commonwealth enacted an irrevocable trust, the State Retiree Benefits Trust Fund, which will invest contributions (PAYGO and additional funding) and pay benefits. Contributions, as calculated by the actuary, were projected to range from \$763.1 million in FY08 (approximately \$350 million more than the current PAYGO amount) to \$3.8 billion in FY37, assuming funding of the Trust. Unfunded, these contributions will range from \$1.2 billion in FY08 to \$18.5 billion in FY37. The Legislature has enacted a transfer of \$343.2 million from the General Fund to the Trust Fund and any residual balance of tobacco settlement monies in the Health Care Security Trust Fund as of June 30, 2008. It is estimated that, combined, these two amounts will approximate the contributions calculated by the actuary for FY08. The FY08 budget also created a legislative study Commission looking for future funding and structuring opportunities for OPEB. The Commission's report is due in December 2007.

- ◆ **Lottery Deficit** – In FY07, the State Lottery transferred approximately \$921 million in the aggregate to municipalities as mandated by the General Appropriation Act, regardless of the actual amount available from sales after prizes and administrative costs. Lottery revenues for FY07 dropped 1.4% to \$4.7 billion. Prizes were \$3.7 billion and operating expense and other mandated transfers were over \$1.1 billion, leaving an operating deficit of nearly \$118 million. There is no provision in current law for dealing with this shortfall in available lottery revenues. The FY08 budget assumes an increase in lottery distributions of \$15 million over FY07. According to information provided by the Lottery, for the Lottery to generate revenues adequate to support these transfers, sales would need to grow an estimated \$650 million or 15%. The average growth in Lottery sales over the last five years has been approximately \$49 million or 1%.
- ◆ **Changes in Net Assets** – The Commonwealth's net assets increased by nearly \$1.4 billion in FY07. Net assets of governmental activities increased by about half of this \$1.4 billion. The increase in net assets is primarily attributable to the aforementioned school construction activity and increased tax revenues. Tax revenues rose by nearly \$1.4 billion above prior year collections. Expenses of governmental activities were nearly \$36 billion. This increase from FY06's \$34.3 billion is attributable to increase in Local Aid expenses of \$400 million and Medicaid expenses of over \$890 million. However, major categories of expenses rose, led by Medicaid costs.



General revenue for the Commonwealth, net of transfers, but including taxes, investment income and tobacco settlement income from governmental activities was nearly \$21.7 billion. Net assets of the business – type activities showed an increase of nearly \$663 million.

### *Fund Highlights*

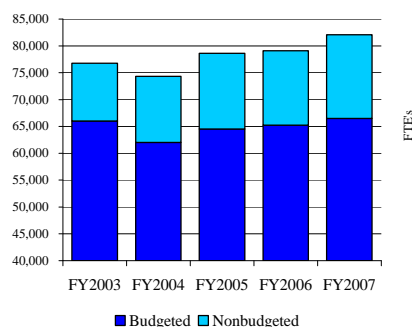
**Governmental Funds – Fund Balances** – At June 30, 2007, the Commonwealth's governmental funds reported a combined ending fund balance of over \$7.7 billion. Of the \$7.7 billion:

- Over \$6.6 billion represents unreserved or undesignated fund balance. This is primarily due to an increase in the School Building Authority's balance of over \$598 million, less a \$23 million decrease in the General Fund balance and an increase deficit in the Highway Fund. The Highway Fund maintains a cumulative deficit of nearly \$1.3 billion. The Highway Fund's deficit increased by \$224 million from the prior year. The unreserved and undesignated fund balance of over \$6.6 billion includes the highway fund deficit. Similar to last year, \$145.0 million has been declared as a receivable in the governmental funds related to anticipated tobacco settlement proceeds in FY08. As previously mentioned, the Lottery had an operating deficit of \$118 million.
- The MSBA's fund balance of \$1.9 billion is blended into the Commonwealth. Within this fund balance are financing sources of bond proceeds and bond premium of nearly \$1.6 billion and expenditures of nearly \$1.4 billion for grant payments to municipalities. Another \$562.2 million was transferred to the MSBA from the Commonwealth from sales taxes.
- Governmental reserved fund balances total over \$1.0 billion. The vast majority of this is nearly \$941 million reserved for retirement of indebtedness, the vast majority of which is held in escrows related to refunding bonds and to pay grant anticipation notes. Of the remaining portion, \$100 million is reserved for the CA/T owner controlled insurance program for workers' compensation and general liability and \$52 million is reserved for amounts due from cities and towns.

Highlights of FY07 – financial operations include:

- Year end inflows to the Stabilization Fund continued this year of nearly \$91 million consisting entirely of undesignated budgetary fund balances and after changes in the calculation formula. In addition, over \$43 million of tax revenue was withheld by control measures restricting tax growth in excess of inflation during the year.
- Tobacco settlement proceeds for the year were over \$247 million, all of which were used to support current operations. The Commonwealth transferred in FY07 an additional \$7 million in prior tobacco settlement proceeds held in the Health Care Security Trust to help certain provisions of fund health care reform. The Commonwealth's allocable share of the base amounts under the

**Full Time Equivalent Workforce  
Including Higher Education  
June 2003 – June 2007**



master settlement agreement with manufacturers (MSA) through 2025 is more than \$8.3 billion, subject to adjustments, reductions and offsets. However, in pending litigation tobacco manufacturers are claiming that because of certain developments they are entitled to reduce future payments under the MSA, and certain manufacturers withheld payments to the states due in April 2006 and April 2007. The Commonwealth was also awarded approximately \$414 million from a separate Strategic Contribution Fund established under the MSA to reward certain states' particular contributions to the national tobacco litigation effort. This additional amount, also subject to a number of adjustments, reductions and offsets, is due to the Commonwealth in equal installments beginning in FY08 through FY17. The Commonwealth is pursuing legal action to compel the payment of the additional funds. The tobacco manufacturers have given notice of their intention to seek a reduction in their payment for 2004, due to the Commonwealth in FY08.

- Full time equivalent employee counts grew by approximately 2% this year, but levels are still 1,675 below that of 2001, the highest of the past decade. The graphic to the left details the changes over the last five years.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements are composed of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting, as well as other supplementary information.

### Government-wide Financial Statements

The government-wide financial statements present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net Assets*, which presents the assets, liabilities and net assets for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net assets of the Commonwealth. Both of the statements have separate sections for three different categories of the Commonwealth's operations. These activities are *Governmental Activities*, *Business-Type Activities* and *Discretely Presented Component Units*.

The government-wide financial statements can be found immediately following this discussion and analysis.

### Fund Financial Statements and Component Unit Financial Statements

*Funds* are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Within the funds, budgetary compliance is demonstrated at the appropriation level for budgeted expenditures.

Fund financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government-wide statements. All of the funds of the Commonwealth can be divided into three categories. It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. The three categories of funds are *Governmental Funds*, *Proprietary Funds* and *Fiduciary Funds*. Further discussion on the funds can be found in the section “Financial Analysis of the Commonwealth’s Funds” and in Note 1 to the financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but are independent of the core Commonwealth operations. Most operate similar to private-sector businesses.

### Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information

The notes provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units’ financial statements.

The required supplementary information section includes budgetary comparison schedules for the General and Highway Funds, along with a reconciliation comparing the original general appropriation act, and supplemental appropriations compared with actual budgetary spending. Variance columns are also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures is provided. A schedule of pension funding progress is also included in this section.

Other supplementary information is not required, but is included to present combining schedules of minor governmental funds.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Net Assets

#### *Major Long – Term Obligations for Assets of Political Subdivisions (amounts in thousands)*

|   |    |            |
|---|----|------------|
| School construction grants payable.....   | \$ | 4,480,246  |
| Outstanding bonds issued to fund the MBTA .....                                   |    | 368,873    |
| Central Artery / Tunnel Project to be transferred<br>to the Turnpike.....         |    | 6,998,177  |
| Central Artery / Tunnel Project to be transferred<br>to Massport.....             |    | 365,000    |
|   |    | <hr/>      |
| Change in unrestricted net assets due to<br>items unique to the Commonwealth..... | \$ | 12,212,296 |

Net assets may serve over time as a useful indicator of a government’s financial position. The Commonwealth’s combined net assets (governmental and business-type activities) showed a net deficit of nearly \$5.3 billion at the end of FY07. The *unrestricted net assets* are negative by over \$10.4 billion. A substantial portion of this deficit is a result of four programs where the Commonwealth decided to fund assets that are owned by political subdivisions of the Commonwealth. The most significant example is the Central Artery / Tunnel Project (CA/T) costs. Pursuant to the Metropolitan Highway System legislation from 1997, the CA/T will transfer to the Massachusetts Turnpike Authority (MTA) and to the Massachusetts Port Authority (Massport) upon completion. Portions that have not been transferred are shown as payables on the Statement of Net Assets. While the assets will be owned by the Turnpike Authority and Massport (a related organization,) a large portion of the liabilities will remain with the Commonwealth. To date, nearly \$14.4 billion of the related assets have entered into service or have been transferred. The non-right of way portion of these assets is depreciating over forty years until transferred.

Another example of this type of arrangement is the MSBA. In FY05, legislation changed the funding of school construction from a direct appropriation of the Commonwealth to a dedicated portion of the sales

tax administered by the MSBA. In FY07, the amount of MSBA's grants payable dropped by \$1.8 billion due to grant payments made to municipalities and reduction of obligations due to audits. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement 39, the authority's operations are reported within a governmental fund in this report and on the government-wide financial statements.

There are two other instances related to authorities, where the Commonwealth incurs debt, but has no related assets. The first is for debt that was issued to fund an 18-month lag in operating subsidy costs, otherwise known as "forward funding," of the Massachusetts Bay Transportation Authority (MBTA) a change enacted in FY00. The second is the contractual assistance obligations to other authorities to help subsidize their debt service. The majority of these assistance obligations are for the Massachusetts Water Pollution Abatement Trust. As of June 30, 2007, the outstanding debt remaining related to the "forward funding" costs of the MBTA was approximately \$369 million. Long term obligations for contractual assistance to authorities dropped significantly in FY07 due to a bond sale completed in May 2007. Series 2007A refunded contract assistance that partially securitized bonds of the Massachusetts Convention Center Authority (MCCA), the town of Foxborough Industrial Development Financing Authority and the Route 3 North Transportation Improvements Association. Because of this transaction, the Commonwealth refinanced its outstanding liability for contractual assistance for these entities by approximately \$129 million. After this sale, contractual assistance dropped to an insignificant amount.

Exclusive of fiduciary assets, the Commonwealth's current cash and investments decreased by over \$469 million between July 1, 2006 and June 30, 2007. Despite increased tax revenues, charges for services decreased due to the aforementioned change in uncompensated care pool funding and there were increases in the Commonwealth's core expenses for debt service, Medicaid, other human services and public safety. Higher education costs also continue to grow. Commercial paper borrowing continued in FY07 due to the timing of current year receipts and current year major expenses such as the payment of local aid, though at a lower volume than in previous years due to improving tax revenues.

Noncurrent assets decreased by nearly \$2.2 billion. The decrease is attributable to \$5.0 billion (net of depreciation) of Central Artery / Tunnel asset transfer to the MTA and an offsetting increase of \$2.5 billion in investments, restricted investments and annuity contracts, largely with the School Building Authority and with the Institutions of Higher Education. Nearly \$21.3 billion of the Commonwealth's net assets reflect the Commonwealth's investment in traditional capital assets such as land, buildings, infrastructure and equipment, net of accumulated depreciation. GASB requires the reporting of the value of investment in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets to the face of the Commonwealth's financial statements. As these assets provide services

to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it must be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The bulk of the Commonwealth's net assets are comprised of its capital assets and long – term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Commonwealth's current assets were over \$11.5 billion, while its current liabilities were nearly \$7.9 billion. Restricted net assets represent resources that are subject to external constraints. The tables below portray the Commonwealth's net assets and the changes to those net assets for the fiscal year. In addition, net assets of higher education foundations have been included as part of the business – type activities.

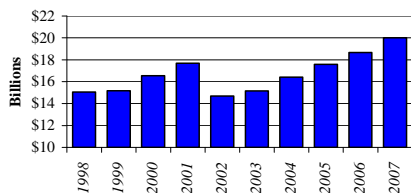
**Net Assets as of June 30, 2007 and 2006**  
(in millions of dollars)

|   | <u>Governmental Activities</u> |                    | <u>Business - Type Activities</u> |                 | <u>Total Primary Government</u> |                   |
|---|--------------------------------|--------------------|-----------------------------------|-----------------|---------------------------------|-------------------|
|   | June 30, 2007                  | June 30, 2006      | June 30, 2007                     | June 30, 2006   | June 30, 2007                   | June 30, 2006     |
| Current and other non-capital assets....                | \$ 14,383                      | \$ 13,351          | \$ 4,094                          | \$ 3,665        | \$ 18,477                       | \$ 17,016         |
| Capital assets.....                                     | 18,550                         | 22,497             | 2,739                             | 2,425           | 21,289                          | 24,922            |
| <b>Total Assets.....</b>                                | <b>32,933</b>                  | <b>35,848</b>      | <b>6,833</b>                      | <b>6,090</b>    | <b>39,766</b>                   | <b>41,938</b>     |
| Long term liabilities.....                              | 35,361                         | 38,822             | 1,773                             | 1,690           | 37,134                          | 40,512            |
| Other liabilities.....                                  | 7,169                          | 7,323              | 727                               | 752             | 7,896                           | 8,075             |
| <b>Total Liabilities.....</b>                           | <b>42,530</b>                  | <b>46,145</b>      | <b>2,500</b>                      | <b>2,442</b>    | <b>45,030</b>                   | <b>48,587</b>     |
| Net assets:   |                                |                    |                                   |                 |                                 |                   |
| Invested in capital assets,<br>net of related debt..... | 489                            | 101                | 1,392                             | 1,284           | 1,881                           | 1,385             |
| Restricted*.....  | 994                            | 1,759              | 2,296                             | 1,816           | 3,290                           | 3,575             |
| Unrestricted*.....                                      | (11,080)                       | (12,157)           | 645                               | 548             | (10,435)                        | (11,609)          |
| <b>Total Net Assets (deficits) ....</b>                 | <b>\$ (9,597)</b>              | <b>\$ (10,297)</b> | <b>\$ 4,333</b>                   | <b>\$ 3,648</b> | <b>\$ (5,264)</b>               | <b>\$ (6,649)</b> |

\* Restated due to change in accounting principles

**Changes in Net Assets**

**Revenue from Taxation –  
GAAP Basis 1998-2007**



The Commonwealth's net assets improved by nearly \$1.4 billion between FY06 and FY07. Revenues in general increased, led by tax revenue increases of \$1.3 billion. Grants and contribution revenues improved by \$568 million. The tax revenue increase is attributable in large part to increases of \$1 billion in income tax payments, \$182 million in corporate taxation and \$70 million in sales and use tax collections. The Department of Revenue has also implemented sophisticated "data mining" software, which seeks out non-filer data from a multitude of sources. This has increased the amount that has been declared as receivable on the Statement of Net Assets, but also has increased an offsetting allowance for doubtful accounts, as many of these non-filers may be cash-based businesses or are already in financial difficulty.

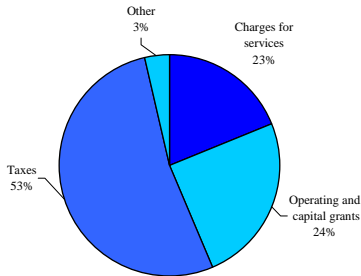
Total charges for services also decreased by \$454 million due to a nearly \$529 million decrease in Medicaid premiums that are now reflected in an increase in operating grants and contributions of \$502 million related to provisions of the Commonwealth's health care reform legislation passed during FY06. Related to this change was a decline in health and human services charges of \$74 million, offset by an increase in operating grants and contributions of \$6 million. Approximately 53% of the Commonwealth's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid. Restricted net assets decreased from FY06 due to certain reclassifications because of new accounting standards, offset by higher restricted net assets for unemployment compensation which rose by approximately \$329 million.

Beyond the aforementioned MSBA related activity, Medicaid spending continued to increase as did other Health and Human Services due to rising medical costs. Other programmatic expenses remained largely unchanged or dropped due to tighter budget controls.

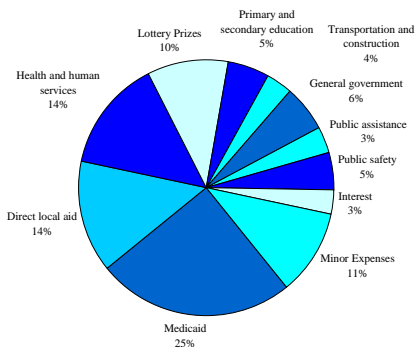
***Changes in Net Assets during the Fiscal Years Ended June 30, 2007 and 2006***  
***(in millions of dollars except percentages)***

|  | <u>Governmental Activities</u> |                      | <u>Business - Type Activities</u> |                      | <u>Total Primary Government</u> |                      | <u>Total Primary Government</u> |                      |                  |
|--|--------------------------------|----------------------|-----------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|----------------------|------------------|
|  | <u>June 30, 2007</u>           | <u>June 30, 2006</u> | <u>June 30, 2007</u>              | <u>June 30, 2006</u> | <u>June 30, 2007</u>            | <u>June 30, 2006</u> | <u>June 30, 2007</u>            | <u>June 30, 2006</u> | <u>07 to '06</u> |
|  |                                |                      |                                   |                      |                                 |                      | <u>Distribution</u>             | <u>Distribution</u>  | <u>% Change</u>  |
| <b>Revenues</b>                          |                                |                      |                                   |                      |                                 |                      |                                 |                      |                  |
| Program Revenues:                        |                                |                      |                                   |                      |                                 |                      |                                 |                      |                  |
| Charges for services.....                | \$ 7,156                       | \$ 7,707             | \$ 3,371                          | \$ 3,267             | \$ 10,527                       | \$ 10,974            | 25%                             | 27%                  | -4%              |
| Operating grants and contributions....   | 8,849                          | 8,348                | 746                               | 684                  | 9,595                           | 9,032                | 23%                             | 22%                  | 6%               |
| Capital grants and contributions.....    | 487                            | 482                  | -                                 | -                    | 487                             | 482                  | 1%                              | 1%                   | 1%               |
| General Revenues:                        |                                |                      |                                   |                      |                                 |                      |                                 |                      |                  |
| Taxes.....                               | 20,001                         | 18,668               | -                                 | -                    | 20,001                          | 18,668               | 47%                             | 46%                  | 7%               |
| Other.....                               | 1,317                          | 1,422                | 317                               | 247                  | 1,634                           | 1,669                | 4%                              | 4%                   | -2%              |
| <b>Total Revenues.....</b>               | <b>37,810</b>                  | <b>36,627</b>        | <b>4,434</b>                      | <b>4,198</b>         | <b>42,244</b>                   | <b>40,825</b>        | <b>100%</b>                     | <b>100%</b>          | <b>3%</b>        |
| <b>Expenses</b>                          |                                |                      |                                   |                      |                                 |                      |                                 |                      |                  |
| Medicaid.....                            | 9,044                          | 8,151                | -                                 | -                    | 9,044                           | 8,151                | 22%                             | 21%                  | 11%              |
| Direct local aid.....                    | 5,081                          | 4,682                | -                                 | -                    | 5,081                           | 4,682                | 12%                             | 12%                  | 9%               |
| Other health and human services.....     | 5,069                          | 5,306                | -                                 | -                    | 5,069                           | 5,306                | 12%                             | 14%                  | -4%              |
| Lottery.....                             | 3,689                          | 3,709                | -                                 | -                    | 3,689                           | 3,709                | 9%                              | 10%                  | -1%              |
| Higher education.....                    | -                              | -                    | 3,486                             | 3,277                | 3,486                           | 3,277                | 9%                              | 8%                   | 6%               |
| Primary and secondary education.....     | 1,866                          | 1,942                | -                                 | -                    | 1,866                           | 1,942                | 5%                              | 5%                   | -4%              |
| Unemployment compensation.....           | -                              | -                    | 1,430                             | 1,338                | 1,430                           | 1,338                | 3%                              | 3%                   | 7%               |
| Other.....                               | 11,199                         | 10,568               | -                                 | -                    | 11,199                          | 10,568               | 28%                             | 27%                  | 6%               |
| <b>Total Expenses.....</b>               | <b>35,948</b>                  | <b>34,358</b>        | <b>4,916</b>                      | <b>4,615</b>         | <b>40,864</b>                   | <b>38,973</b>        | <b>100%</b>                     | <b>100%</b>          | <b>5%</b>        |
| <b>Excess / (Deficiency)</b>             |                                |                      |                                   |                      |                                 |                      |                                 |                      |                  |
| <b>before transfers.....</b>             | <b>1,862</b>                   | <b>2,269</b>         | <b>(482)</b>                      | <b>(417)</b>         | <b>1,380</b>                    | <b>1,852</b>         |                                 |                      |                  |
| Transfers.....                           | (1,167)                        | (1,022)              | 1,167                             | 1,022                | -                               | -                    |                                 |                      |                  |
| Change in Net assets (deficits).....     | 695                            | 1,247                | 685                               | 605                  | 1,380                           | 1,851                |                                 |                      |                  |
| Net assets - beginning .....             | (10,297)                       | (11,544)             | 3,648                             | 3,043                | (6,649)                         | (8,501)              |                                 |                      |                  |
| Reclassification of permanent fund ..... | 5                              | -                    | -                                 | -                    | 5                               | -                    |                                 |                      |                  |
| Net assets - ending.....                 |                                |                      |                                   |                      |                                 |                      |                                 |                      |                  |
| <b>Total Net Assets (deficits) .....</b> | <b>\$ (9,597)</b>              | <b>\$ (10,297)</b>   | <b>\$ 4,333</b>                   | <b>\$ 3,648</b>      | <b>\$ (5,264)</b>               | <b>\$ (6,649)</b>    |                                 |                      |                  |

**Revenue—Governmental Activities**  
Fiscal Year Ending June 30, 2007

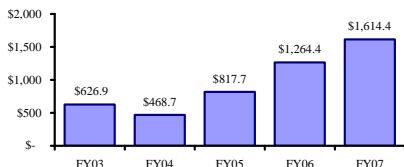


**Major Expenses—Governmental Activities**  
Fiscal Year Ending June 30, 2007



**Business—Type Activities**

**Unemployment Compensation Fund**  
**Net Assets**  
Fiscal Year Ending June 30, 2007  
(Amounts in Millions)



**FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS**

**Governmental Funds**

The largest category of tax revenue is income taxes. Of the over \$20 billion in tax revenue within governmental activities, \$11.6 billion was from income taxation, \$4.1 billion from sales, \$1.6 billion from corporations, \$678 million from motor fuels and over \$2.0 billion from other forms of taxation. The largest operating grants are the federal Medicaid subsidies.

The largest capital grants are for transportation, namely grants for highway construction. Finally, Lottery revenues encompass approximately 44% of the Commonwealth's charges for services.

Lottery revenues decreased this year by approximately \$69 million, causing a deficit in operations of approximately \$118 million. This was largely due to decreases in the Mega Millions game which is sensitive to jackpot sizes and the continued decline in instant game sales primarily due to lower disposable income.

Medicaid represents 25% of all the Commonwealth's governmental expenses, exclusive of business – type activities. However, it must be noted that approximately half of the Medicaid expenses are subsidized in the form of federal reimbursements. These subsidies are noted herein in the “charges for services” segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth. According to the Department of Revenue, Division of Local Services, inclusive of regional school aid, over 72% of these funds are earmarked for public education or related activities. To the left is a chart that summarizes governmental expenses of the Commonwealth.

Business – type activities are functions that equate to activities of a private enterprise. In the Commonwealth the institutions of higher education are deemed to be business type activities because of their lack of separate taxation. Also, unemployment compensation is considered to be a business – type activity.

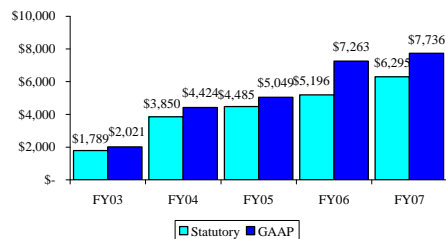
The business-type activities increased the Commonwealth's net assets by nearly \$685 million. This primarily resulted from a nearly \$350 million increase in the Commonwealth's Unemployment Compensation Fund net assets due to the improving economy, offset by a nearly 5% decrease in contributions. Net assets of the schools of higher education, increased by nearly \$335 million largely due to increases in net tuition and fee revenue (by nearly 8%.) Miscellaneous revenues, largely ancillary higher education sales and services grew by nearly 13% and federal grants and contributions grew slightly over 2%.

As noted earlier, the Commonwealth uses fund accounting to demonstrate interperiod equity and the extent to which current resources are financing the full cost of services that citizens are receiving.

Governmental funds account for the near term inflows, outflows and balances of expendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. In FY07, because of the nature of the significant relationship between the Commonwealth and the MSBA, the MSBA's operations and results

are presented as a major fund in the governmental funds, even though it is a legally separate authority. MSBA's activity in FY07 added \$666 million in revenues, nearly \$1.6 billion in debt issued that is reported as other financing sources to the Commonwealth's core governmental activity. MSBA's fund balance added \$598 million to the Commonwealth's governmental fund balance at the end of the year, inclusive of nearly \$2.5 billion of assets and nearly \$582 million of liabilities. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

**Governmental Fund Balance  
Statutory vs. GAAP**  
(Amounts in Millions)



The Commonwealth develops its budgets on a statutory basis. A comprehensive process is conducted with all departments to convert the statutory basis reporting to generally accepted accounting principles. System generated reports from the state accounting system and data warehouses are combined with reports from each of the Commonwealth departments to record governmental fund perspective, departmental accruals. Similar reports are generated to show budgetary control, which is maintained at the appropriation level, not at the fund level. There are six major items which account for almost all the difference between the statutory basis reporting and the governmental fund perspective: accruals for the Medicaid program, compensated absences, claims and judgments and tax revenue accruals.

**Governmental Fund Operations - GAAP Basis - Fund Perspective**  
(Amounts in millions)

|   | FY07             | FY06             | FY05             | FY04             | FY03             | FY02              |
|---|------------------|------------------|------------------|------------------|------------------|-------------------|
| Beginning fund balances .....                 | \$7,263.2        | \$5,048.6        | \$4,424.4        | \$2,021.0        | \$2,467.9        | \$ 4,255.4        |
| Reclassifications.....                        | 5.0              | -                | -                | -                | -                | 551.2             |
| Revenues and other financing sources.....     | 49,402.2         | 47,189.9         | 43,532.6         | 44,371.7         | 42,798.0         | 36,476.6          |
| Expenditures and other financing sources..... | 48,934.5         | 44,975.3         | 42,908.4         | 41,968.3         | 43,244.9         | 38,815.3          |
| Excess / (deficiency).....                    | 472.7            | 2,214.6          | 624.2            | 2,403.4          | (446.9)          | (1,787.5)         |
| Ending fund balances .....                    | <u>\$7,735.9</u> | <u>\$7,263.2</u> | <u>\$5,048.6</u> | <u>\$4,424.4</u> | <u>\$2,021.0</u> | <u>\$ 2,467.9</u> |

The increase in revenues and expenditures in FY07 from FY06 is attributable to the aforementioned MSBA activity as well as an increase of \$1.2 billion in governmental tax revenues and \$507 million in federal reimbursements. Total governmental revenues and other financing sources rose 4.7%. However, governmental expenditures and other uses rose at a much larger pace (about 8.8%) led by a \$643 million increase in Medicaid. Debt service also continued to rise, up nearly \$450 million from FY06, or about 22%. However, \$228 million of this amount is due to a one time cash defeasance of \$211 million in outstanding refunding bonds and future interest, thereby lowering future debt service. In addition to the MSBA and the General Fund, the Highway Fund balance decreased by nearly \$224 million due to a continuance of debt service and highway maintenance costs in excess of gas tax revenue pledged to fund those activities. Lottery revenues and expenditures both declined from FY06, but as previously mentioned, revenues declined by a larger amount. The other minor governmental funds increased in fund balance, due to a full year of activity in funds connected to health care reform and the classification of the debt service



and the Central Artery Statewide Roads and Bridges funds as minor funds this year, rather than major funds. During the year, the Commonwealth also received a settlement from the investment company that holds the Central Artery project workers' compensation and general liability owner controlled insurance program (OCIP). Approximately \$59 million was received for net credits due from November 1, 1992 through November 1, 1995, inclusive of interest. As the federal government continues to participate in road projects in the Commonwealth, the federal share of this settlement is being used to offset current draws of federal funds. This offsetting does not preclude future reallocations of federal funds to the Commonwealth.

As of the end of fiscal 2007, the Commonwealth's governmental funds reported combined ending fund balances of over \$7.7 billion, an increase of over \$468 million from the previous year. However, of the \$7.7 billion, the following amounts are reserved or committed.

**Governmental Funds - Designations and Reserves of Fund Balances**  
(Amounts in millions)

|   | <u>2007</u>       | <u>2006</u>       | <u>Change</u>   | <u>Percentage</u><br><u>Change</u> |
|---|-------------------|-------------------|-----------------|------------------------------------|
| Reserved:   |                   |                   |                 |                                    |
| Retirement of indebtedness .....                  | \$ 940.8          | \$ 944.2          | \$ (3.4)        | 0%                                 |
| Central Artery                                    |                   |                   |                 |                                    |
| Workers Compensation and                          |                   |                   |                 |                                    |
| General liability insurance reserve.....          | 100.1             | 114.4             | (14.3)          | -13%                               |
| Amounts due from municipalities.....              | 51.5              | -                 | 51.5            | 100%                               |
| <b>Total reserved balances .....</b>              | <b>1,092.4</b>    | <b>1,058.6</b>    | <b>33.8</b>     | <b>3%</b>                          |
| Designated:                                       |                   |                   |                 |                                    |
| Continuing appropriations .....                   | \$ 319.4          | \$ 936.5          | \$ (617.1)      | -66%                               |
| General and Special Revenue Funds.....            | 2,456.7           | 2,155.9           | 300.8           | 14%                                |
| Capital projects funds.....                       | 128.0             | 19.2              | 108.8           | 567%                               |
| <b>Total designated balances .....</b>            | <b>2,904.1</b>    | <b>3,111.6</b>    | <b>(207.5)</b>  | <b>-7%</b>                         |
| <b>Undesignated balances * .....</b>              | <b>3,739.4</b>    | <b>3,098.1</b>    | <b>641.3</b>    | <b>21%</b>                         |
| <b>Total unreserved and designated balances .</b> | <b>6,643.5</b>    | <b>6,209.7</b>    | <b>433.8</b>    | <b>7%</b>                          |
| <b>Total fund balances .....</b>                  | <b>\$ 7,735.9</b> | <b>\$ 7,268.3</b> | <b>\$ 467.6</b> | <b>6%</b>                          |

\* Beginning balance reclassified for 2006 for permanent fund.

The change in reserved and undesignated increased to nearly \$6.7 billion, despite the Lottery's excess of expenditures over revenues noted above and increases in health and human service related costs. Unreserved balances of General and Special revenue funds rose mainly due to new funds initiated in connection with the Commonwealth's health care reform legislation. Capital project fund balances showed an increase entirely due to increased registry of motor vehicles receipts pledged to the Central Artery Statewide Road and Bridge Infrastructure Fund. The beginning balance in FY06 was reclassified this year due to a change in status of a permanent fund.

The amounts reserved for retirement of indebtedness entirely represent escrows for crossover refunding bonds and payments held in escrow for grant anticipation notes to be paid in FY08. The reserve for Central Artery workers' compensation and general liability represents the balance of funds earmarked for claims in an owner controlled insurance program. The reserve will continue to decline as claims are expected to rise during the windup of the project.

During FY07 the general and highway funds were the primary operating funds of the Commonwealth. At the end of the current fiscal year, the fund balance of the general fund was nearly \$4.9 billion. Of this amount, nearly \$2.4 billion was apportioned to the Commonwealth's Stabilization Fund and the Bay State Competitiveness Investment Fund. Over \$319 million was also designated for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year in the general fund, sharply lower than FY06's \$904 million.

Presented in the governmental funds are the balances and results of operations from the MSBA. In FY07, the MSBA received \$562.2 million of dedicated sales tax revenues.

### **Proprietary Funds**

Proprietary Funds report activities of the Commonwealth that are structured similar to for profit businesses. Proprietary fund financial statements provide the same type of information as the government – wide financial statements, only in greater detail.

As discussed in the business – type activities above, the business type activities increased the Commonwealth's net assets by over \$647 million.

### **BUDGETARY HIGHLIGHTS**

Differences between the original budget and final budget expenditures amount to nearly \$330 million, exclusive of transfers. As revenues continued to increase this fiscal year, supplemental budget legislation grew. The supplemental budgets are summarized as follows:

- ◆ \$20 million to pay for costs related to the Central Artery / Tunnel collapse in July 2006.
- ◆ \$7 million for transitional assistance and state police costs in a supplemental budget passed in January.
- ◆ \$8 million for the courts and public defenders, \$8 million for transportation and construction projects, \$15 million for social services, \$17 million for county correctional institutions and \$11 million for an anti-gang violence program in a supplemental budget passed in May.
- ◆ \$9.5 million for community health centers in a supplemental budget passed in October.
- ◆ \$22 million for district attorneys, \$131 million in collective bargaining agreement costs, \$16 million to fund a deficit in a health and human services account related to Medicaid and nearly \$6 million to fund housing and community development in a final supplemental budget also passed in October.

The original budget was passed on July 8, 2006, just after the start of FY07. The Commonwealth has provisions of interim budgets to facilitate operations after the start of a fiscal year, but before a fiscal year budget is passed. Transfers of revenues and expenditures largely related to health care reform, stabilization activity, debt service and taxation resulted in nearly \$2.5 billion, net. The required supplementary information that follows the notes to the basic financial statements contains a schedule of revenues, expenditures and changes in fund balances – statutory basis – budget and actual. The statement shows a favorable variance in excess of \$1 billion of revenues over budgetary projections, mainly in taxation. Other financing sources exceeded expectations as the general appropriation act does not budget

for fringe benefit cost recoveries. Expenditures were \$345 million less than expectations, solely due to a cash defeasance of debt, which lowered debt service by over \$214 million. However, other financing uses exceeded budget due to transfers that are typically not part of the budget process, but are statutorily required. Overall, the various budgetary acts projected nearly a \$1.7 billion shortfall for FY07. Yet, the Commonwealth ended the year with only a \$307 million structural deficit, defined as an excess of spending and other uses over revenues and other sources.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to approximately \$31.8 billion, net of accumulated depreciation of \$10.5 billion, leaving a net book value of \$21.3 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. During the fiscal year, a significant portion of the Central Artery / Tunnel Project transferred to the Turnpike Authority - \$5.0 billion of net book value, pursuant to General Laws. Of the remaining investment in capital assets noted above though, \$6.7 billion of this amount includes assets that will transfer to the Turnpike Authority and the Massachusetts Port Authority upon completion of the Central Artery / Tunnel project that are in use and depreciating or are right of way.

Absent the \$5.0 billion Artery transfer, the total increase in the Commonwealth's investment in capital assets, net of disposals and changes in accumulated depreciation from 2006 to 2007 was nearly \$1.3 billion, largely in construction in process, buildings and machinery and equipment. Additional information on the Commonwealth's capital assets can be found in the notes to the financial statements.

The following table details the capital asset activity for the Commonwealth. Similar to previous charts, FY06 amounts for business-type activities include amounts for the foundations established on behalf of the schools of higher education.

#### Changes in Capital Assets

(net of depreciation)

(amounts in thousands)

|  | Governmental<br>Activities |                      | Business - type<br>Activities |                     | Total                |                      |
|--|----------------------------|----------------------|-------------------------------|---------------------|----------------------|----------------------|
|  | 2007                       | 2006                 | 2007                          | 2006                | 2007                 | 2006                 |
| Land, including Central Artery .....                               | \$ 1,092,159               | \$ 1,192,284         | \$ 80,160                     | \$ 64,415           | \$ 1,172,319         | \$ 1,256,699         |
| Historical treasures .....   | -                          | -                    | 1,264                         | 1,194               | 1,264                | 1,194                |
| Construction in process .....                                      | 2,148,211                  | 1,689,497            | 468,303                       | 439,382             | 2,616,514            | 2,128,879            |
| Construction in process -<br>Central Artery / Tunnel Project ..... | 127,681                    | 133,743              | -                             | -                   | 127,681              | 133,743              |
| Buildings .....  | 1,986,068                  | 2,009,823            | 1,780,459                     | 1,537,675           | 3,766,527            | 3,547,498            |
| Machinery and equipment .....                                      | 258,740                    | 217,843              | 302,090                       | 276,763             | 560,830              | 494,606              |
| Infrastructure, including Central Artery ....                      | 12,936,734                 | 17,253,978           | -                             | -                   | 12,936,734           | 17,253,978           |
| Library collections .....  | -                          | -                    | 107,080                       | 105,652             | 107,080              | 105,652              |
| <b>Total .....</b>   | <b>\$ 18,549,593</b>       | <b>\$ 22,497,168</b> | <b>\$ 2,739,356</b>           | <b>\$ 2,425,081</b> | <b>\$ 21,288,949</b> | <b>\$ 24,922,249</b> |

## Debt Administration

The Commonwealth issues short-term and long-term debt. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. Additionally, short-term notes are issued and redeemed annually.

Exclusive of MSBA, the Commonwealth issued over \$1.6 billion in new debt this year. An additional \$1.4 billion was sold in the form of refunding bonds, taking advantage of interest rate changes on previously issued debt. MSBA continued to sell debt this year, issuing \$1.6 billion in bonds in the fiscal year. Subsequent to year end, the Commonwealth issued three series of bonds, including \$1.3 billion of general obligation bonds. These bonds are the first bonds the Commonwealth has sold bonding ahead of need. It is anticipated that the proceeds of these bonds will fund capital expenditures for all of FY08.

The majority of bond sales were for transportation purposes, as well as for the MSBA. During FY07, nearly \$1.2 billion in bond principal was repaid, with nearly \$1.4 billion refunded.

Below is a table which details the Commonwealth's debt by type for the fiscal year compared to the prior fiscal year, excluding premiums and discounts.

### Changes in Long - Term Debt Obligations

(net of related premiums and discounts)

(amounts in thousands)

|   | Governmental<br>Activities |                      | Business - type<br>Activities |                     | Total                |                      |
|---|----------------------------|----------------------|-------------------------------|---------------------|----------------------|----------------------|
|   | 2007                       | 2006                 | 2007                          | 2006                | 2007                 | 2006                 |
| General obligation bonds .....            | \$ 15,822,591              | \$ 15,392,887        | \$ -                          | \$ -                | \$ 15,822,591        | \$ 15,392,887        |
| Special obligation bonds .....            | 1,248,750                  | 1,279,074            | -                             | -                   | 1,248,750            | 1,279,074            |
| Revenue obligation bonds .....            | -                          | -                    | 1,624,617                     | 1,519,727           | 1,624,617            | 1,519,727            |
| Grant anticipation notes .....            | 1,665,620                  | 1,789,445            | -                             | -                   | 1,665,620            | 1,789,445            |
| <b>Subtotal .....</b>                     | <b>18,736,961</b>          | <b>18,461,406</b>    | <b>1,624,617</b>              | <b>1,519,727</b>    | <b>20,361,578</b>    | <b>19,981,133</b>    |
| Massachusetts School Building Authority.. | 3,950,750                  | 2,667,414            | -                             | -                   | 3,950,750            | 2,667,414            |
| <b>Total .....</b>                        | <b>\$ 22,687,711</b>       | <b>\$ 21,128,820</b> | <b>\$ 1,624,617</b>           | <b>\$ 1,519,727</b> | <b>\$ 24,312,328</b> | <b>\$ 22,648,547</b> |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

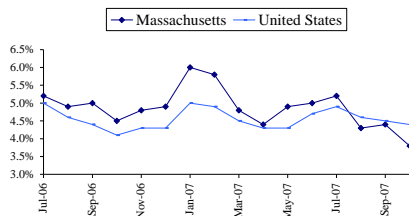
Massachusetts continues to recover economically from the recession that ended in FY03. Our Commonwealth is home to many world-renowned institutions of higher education, both public and private, keeping the economy relatively stable and an incubator for new ideas and growth. Unemployment has dropped due to this stabilization.

The Commonwealth, with an international reputation for medical, cultural, historical and educational institutions remains the economic and educational hub of New England. The Commonwealth's economy remains diversified, but its strongest component is its knowledge – based technology and service industries. The Commonwealth is home to 16 S&P 500 companies, among them six *Fortune 500* headquarters.

Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and

universities located in Massachusetts, and the 2000 US Census, updated in March of 2005, estimated that 40.4% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 28% for the United States as a whole. In the same survey, nearly 90% of residents over age 25 at least have a high school diploma. In primary education, the National Assessment of Education Progress ranks Massachusetts first in 4<sup>th</sup> and 8<sup>th</sup> grade mathematics and reading, second in writing and fourth and sixth in science in grades 4 and 8, respectively. This shows that Massachusetts school children are consistently among the best educated in the nation.

**Monthly Unemployment Rate  
July 2006 – October 2007**



Inflation continued to rise though in the past year. The Boston consumer price index rose nearly 1.5% from September 2006 to September 2007. Medical care was up 6.2%, followed by food and shelter at 3.2% and 2.0%, respectively. Recreation was up 2.0%. Other items were either flat with inflation or dropped. However, these figures do not include the current round of fuel price spikes.

Per capita net income actually dropped 0.6% in FY07, lagging behind the 0.2% drop nationally. For the Commonwealth, this is the first drop since FY02 (a drop of 0.1%), which was entirely due to the events of September 11, 2001. This is a caution sign nationwide. On a dollar basis, per capita net income is over \$9,600 higher than the national average.

Unemployment during the year declined overall, beginning the year at 5.2% and ending slightly lower as of June at 5.0%. During most of the year, the federal rate was slightly lower, but recently, the Commonwealth's rate improved to 4.3% and dropped below the national rate once again.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed via email to [comptroller.info@state.ma.us](mailto:comptroller.info@state.ma.us) or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9<sup>th</sup> Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.mass.gov/osc/reports/reports.htm>.





*McLaughlin Hatchery Visitors*  
*Photograph by Bill Byrne*

In Becket two municipally owned dams were removed to restore a cold water stream, provide habitat for fish and wildlife, and restore a salmon run in the middle of an historic town.



*Ballou Pre Construction*  
*Photograph by Brian Graber*



*Ballou Construction*  
*Photograph by Carrie Banks*



*Ballou Post Construction*  
*Photograph by Joan Kimball*



*Kids Salmon Stocking*  
*Photograph by Paul Shoul*

The project could not have been completed without the expertise and efforts of a team consisting of 27 partners including dozens of committed staff at the local, state, and federal levels, and citizen volunteers. The Massachusetts Riverways Program and the Town of Becket, secured donations and grants from 12 sources, from corporations and small foundations to government agencies. In the end, state funds were matched 3 to 1 from corporate, non-profit, federal and municipal sources.

In the process many volunteers got their hands wet! The elementary students from the Becket-Washington School raised salmon fry in science class and released the fry into the brook.

As a result, more than five miles of stream were restored—providing quality habitat; easier passage for migrating salmon and brook trout; improved navigation and public access along the stream; greater public safety through the new fire suppression system for the town; and reduced liability and maintenance costs.

This project showed that dam removals can be completed safely in areas with adjacent infrastructure, and that dams serving a primary municipal purpose, such as water impoundment for fire suppression, can be successfully removed when community concerns are addressed through a team approach.



# *Basic Financial Statements*

## *Government-wide Financial Statements*

### *Statement of Net Assets*

### *Statement of Activities*

#### **Massachusetts Rivers**

There are 4,230 miles of rivers within the Commonwealth of Massachusetts. The largest is the Connecticut, which flows from north to south. Its tributaries are the Deerfield, Westfield, Chicopee, and Miller's rivers. In the far western part of the state the Housatonic River flows south and the Hoosic River flows north between the Hoosac and Taconic mountain ranges. The Merrimack River, in the northeast, rises in New Hampshire and empties into the Atlantic Ocean. It is navigable for shipping up to a distance of about 15 miles from its mouth. The Nashua and Concord rivers are tributaries of the Merrimack. The Blackstone River flows south from the center of Massachusetts. The Mystic and Charles rivers flow into Boston Harbor, and the Taunton River enters Mount Hope Bay at Fall River.



*View from Mount Sugarloaf State Reservation  
Photograph by Kindra Clineff ©*

#### **Mount Sugarloaf State Reservation, Deerfield**

The view from Mt. Sugarloaf offers a commanding view of the Connecticut River, the Pioneer Valley, and the Pelham and Berkshire Hills. Consisting of two peaks, North and South Sugarloaf, the Reservation offers picnicking, scenic viewing and hiking.

# Statement of Net Assets

June 30, 2007

(Amounts in thousands)

|  | Primary Government |                  |                   |    |                   |
|--|--------------------|------------------|-------------------|----|-------------------|
|  | Governmental       | Business         | Government        |    | Component         |
|  | Activities         | Type             | Wide              |    | Units             |
|  |                    | Activities       | Total             |    |                   |
| <b>ASSETS</b>  |                    |                  |                   |    |                   |
| Current assets:  |                    |                  |                   |    |                   |
| Cash and cash equivalents.....                                 | \$ 4,445,142       | \$ 316,583       | \$ 4,761,725      | \$ | 227,744           |
| Cash with fiscal agent.....                                    | 1,102,987          | -                | 1,102,987         |    | -                 |
| Short-term investments.....                                    | -                  | 165,738          | 165,738           |    | 992,410           |
| Receivables, net of allowance for uncollectibles:              |                    |                  |                   |    |                   |
| Taxes.....   | 2,824,173          | -                | 2,824,173         |    | -                 |
| Federal grants and reimbursements receivable.....              | 1,408,513          | 46,239           | 1,454,752         |    | 57,329            |
| Loans.....   | -                  | 39,801           | 39,801            |    | 215,021           |
| Other receivables.....   | 355,369            | 691,225          | 1,046,594         |    | 163,563           |
| Due from cities and towns.....                                 | 58,637             | -                | 58,637            |    | 29,566            |
| Due from component units .....                                 | 7,860              | -                | 7,860             |    | -                 |
| Due from primary government.....                               | -                  | -                | -                 |    | 209,572           |
| Due from affiliates.....                                       | -                  | 1,471            | 1,471             |    | -                 |
| Inventory.....   | -                  | -                | -                 |    | 56,272            |
| Other current assets.....                                      | 29,833             | 47,586           | 77,419            |    | 106,044           |
| <b>Total current assets .....</b>                              | <b>10,232,513</b>  | <b>1,308,643</b> | <b>11,541,156</b> |    | <b>2,057,521</b>  |
| Noncurrent assets:   |                    |                  |                   |    |                   |
| Cash and cash equivalents - restricted.....                    | -                  | 486,932          | 486,932           |    | 88,276            |
| Long - term investments.....                                   | -                  | 938,441          | 938,441           |    | 1,807,631         |
| Investments, restricted investments and annuity contracts..... | 3,943,995          | 13,365           | 3,957,360         |    | 1,086,961         |
| Accounts receivable, net.....                                  | -                  | 35,295           | 35,295            |    | 12,349            |
| Loans receivable, net.....                                     | -                  | 15,729           | 15,729            |    | 3,198,133         |
| Due from primary government.....                               | -                  | -                | -                 |    | 3,354             |
| Non-depreciable capital assets.....                            | 3,368,051          | 549,727          | 3,917,778         |    | 1,750,783         |
| Depreciable capital assets, net.....                           | 15,181,542         | 2,189,629        | 17,371,171        |    | 10,023,009        |
| State retirement system net pension asset.....                 | 206,827            | -                | 206,827           |    | -                 |
| Other noncurrent assets.....                                   | -                  | 37,508           | 37,508            |    | -                 |
| Other noncurrent assets - restricted.....                      | -                  | 1,257,898        | 1,257,898         |    | 804,330           |
| <b>Total noncurrent assets .....</b>                           | <b>22,700,415</b>  | <b>5,524,524</b> | <b>28,224,939</b> |    | <b>18,774,826</b> |
| <b>Total assets .....</b>                                      | <b>32,932,928</b>  | <b>6,833,167</b> | <b>39,766,095</b> |    | <b>20,832,347</b> |
| <b>LIABILITIES</b>   |                    |                  |                   |    |                   |
| Current liabilities:   |                    |                  |                   |    |                   |
| Accounts payable and other liabilities.....                    | 2,711,979          | 293,305          | 3,005,284         |    | 372,123           |
| Accrued payroll.....   | 84,055             | 105,348          | 189,403           |    | 11,703            |
| Compensated absences.....                                      | 277,590            | 107,649          | 385,239           |    | 21,364            |
| Accrued interest payable.....                                  | 290,711            | 10,085           | 300,796           |    | 231,029           |
| Tax refunds and abatements payable.....                        | 766,107            | 24,505           | 790,612           |    | -                 |
| Due to component units.....                                    | 209,572            | -                | 209,572           |    | -                 |
| Due to primary government.....                                 | -                  | -                | -                 |    | 7,860             |
| Due to federal government.....                                 | 16,461             | -                | 16,461            |    | -                 |
| Claims and judgments.....                                      | 54,200             | -                | 54,200            |    | -                 |
| Deferred inflow of resources.....                              | -                  | 81,234           | 81,234            |    | 26,832            |
| Deposits and unearned revenue.....                             | -                  | 28,597           | 28,597            |    | -                 |
| Due to affiliates.....   | -                  | 1,471            | 1,471             |    | -                 |
| School construction grants payable.....                        | 1,014,286          | -                | 1,014,286         |    | -                 |
| Capital leases.....  | 41,647             | 19,311           | 60,958            |    | 87,349            |
| Massachusetts School Building Authority notes payable.....     | 455,000            | -                | 455,000           |    | -                 |
| Massachusetts School Building Authority Bonds.....             | 60,586             | -                | 60,586            |    | -                 |
| Bonds payable and other obligations.....                       | 1,186,151          | 55,470           | 1,241,621         |    | 448,477           |
| <b>Total current liabilities .....</b>                         | <b>7,168,345</b>   | <b>726,975</b>   | <b>7,895,320</b>  |    | <b>1,206,737</b>  |

(continued)

# Statement of Net Assets

June 30, 2007

(Amounts in thousands)

|   | Primary Government         |                                |                             | Component<br>Units  |
|---|----------------------------|--------------------------------|-----------------------------|---------------------|
|   | Governmental<br>Activities | Business<br>Type<br>Activities | Government<br>Wide<br>Total |                     |
| Noncurrent liabilities:   |                            |                                |                             |                     |
| Compensated absences.....   | 166,362                    | 53,844                         | 220,206                     | 8,248               |
| Accrued interest payable.....                                     | -                          | -                              | -                           | 69,192              |
| Tax refunds and abatements payable.....                           | 49,000                     | -                              | 49,000                      | -                   |
| Due to component units.....                                       | 3,354                      | -                              | 3,354                       | -                   |
| Due to federal government - grants.....                           | -                          | 10,191                         | 10,191                      | -                   |
| Claims and judgments.....   | 132,300                    | -                              | 132,300                     | -                   |
| Deferred inflow of resources.....                                 | -                          | 17,096                         | 17,096                      | 115,714             |
| Prizes payable.....   | 1,411,814                  | -                              | 1,411,814                   | -                   |
| Capital leases.....   | 337,291                    | 64,132                         | 401,423                     | 655,654             |
| Bonds payable and other obligations.....                          | 17,652,853                 | 1,569,147                      | 19,222,000                  | 11,140,048          |
| Massachusetts School Building Authority Bonds.....                | 4,126,710                  | -                              | 4,126,710                   | -                   |
| Due to component units - Central Artery / Tunnel Project.....     | 6,998,177                  | -                              | 6,998,177                   | -                   |
| Due to non-component units - Central Artery / Tunnel Project..... | 365,000                    | -                              | 365,000                     | -                   |
| School construction grants payable.....                           | 3,465,960                  | -                              | 3,465,960                   | -                   |
| Contract assistance payable.....                                  | 89,015                     | -                              | 89,015                      | -                   |
| Teacher's retirement system net pension obligation.....           | 282,430                    | -                              | 282,430                     | -                   |
| Other noncurrent liabilities.....                                 | 281,094                    | 58,701                         | 339,795                     | 351,014             |
| <b>Total noncurrent liabilities.....</b>                          | <b>35,361,360</b>          | <b>1,773,111</b>               | <b>37,134,471</b>           | <b>12,339,870</b>   |
| <b>Total liabilities.....</b>                                     | <b>42,529,705</b>          | <b>2,500,086</b>               | <b>45,029,791</b>           | <b>13,546,607</b>   |
| <b>NET ASSETS</b>   |                            |                                |                             |                     |
| Invested in capital assets, net of related debt.....              | 489,432                    | 1,392,363                      | 1,881,795                   | 4,858,984           |
| Restricted for:   |                            |                                |                             |                     |
| Capital projects.....   | -                          | -                              | -                           | 940                 |
| Unemployment benefits.....  | -                          | 1,614,419                      | 1,614,419                   | -                   |
| Retirement of indebtedness.....                                   | 940,758                    | -                              | 940,758                     | -                   |
| Central artery workers' compensation and general liability.....   | 47,763                     | -                              | 47,763                      | -                   |
| Other purposes.....   | -                          | 681,088                        | 681,088                     | 2,037,051           |
| Funds held as Permanent Investments:                              |                            |                                |                             |                     |
| Nonexpendable purpose.....  | 5,000                      | -                              | 5,000                       | -                   |
| Unrestricted (deficit).....                                       | (11,079,729)               | 645,211                        | (10,434,518)                | 388,765             |
| <b>Total net assets (deficit).....</b>                            | <b>\$ (9,596,777)</b>      | <b>\$ 4,333,081</b>            | <b>\$ (5,263,696)</b>       | <b>\$ 7,285,740</b> |

The notes to the financial statements are an integral part of this statement.

(concluded)

**Statement of Activities**  
Fiscal Year Ended June 30, 2007  
(Amounts in thousands)

| Functions/Programs                                 | Expenses      | Program Revenues        |                                       |                                     | Net (Expenses) Revenues and<br>Changes in Net Assets |                             |                | Component<br>Units |
|--|---------------|-------------------------|---------------------------------------|-------------------------------------|--|-----------------------------|----------------|--------------------|
|  |               | Charges for<br>Services | Operating Grants<br>and Contributions | Capital Grants<br>and Contributions | Primary Government                                   |                             |                |                    |
|  |               |                         |                                       |                                     | Governmental<br>Activities                           | Business-type<br>Activities | Total          |                    |
| Primary government:                                |               |                         |                                       |                                     |  |                             |                |                    |
| Governmental Activities:                           |               |                         |                                       |                                     |  |                             |                |                    |
| General government.....                            | \$ 2,172,191  | \$ 564,347              | \$ 95,061                             | \$ -                                | \$ (1,512,784)                                       | \$ -                        | \$ (1,512,784) | \$ -               |
| Judiciary.....                                     | 818,366       | 118,652                 | 639                                   | -                                   | (699,074)  | -                           | (699,074)      | -                  |
| Direct local aid.....                              | 5,081,359     | -                       | -                                     | -                                   | (5,081,359)  | -                           | (5,081,359)    | -                  |
| Medicaid.....                                      | 9,044,420     | 172,136                 | 3,838,629                             | -                                   | (5,033,654)  | -                           | (5,033,654)    | -                  |
| Group health insurance.....                        | 1,033,796     | 151,604                 | -                                     | -                                   | (882,192)  | -                           | (882,192)      | -                  |
| Public assistance.....                             | 1,258,104     | -                       | 559,558                               | -                                   | (698,546)  | -                           | (698,546)      | -                  |
| Interest (unallocated).....                        | 1,079,551     | -                       | -                                     | -                                   | (1,079,551)  | -                           | (1,079,551)    | -                  |
| Pension.....                                       | 256,790       | -                       | -                                     | -                                   | (256,790)  | -                           | (256,790)      | -                  |
| Energy and environmental.....                      | 475,327       | 168,789                 | 49,773                                | -                                   | (256,765)  | -                           | (256,765)      | -                  |
| Housing and community development.....             | 515,792       | 1,892                   | 300,020                               | -                                   | (213,881)  | -                           | (213,881)      | -                  |
| Health and human services.....                     | 5,069,029     | 538,543                 | 2,773,734                             | 23,968                              | (1,732,784)  | -                           | (1,732,784)    | -                  |
| Transportation and public works.....               | 1,259,699     | 461,217                 | 12,358                                | 463,397                             | (322,727)  | -                           | (322,727)      | -                  |
| Education.....                                     | 1,866,430     | 8,042                   | 837,148                               | -                                   | (1,021,240)  | -                           | (1,021,240)    | -                  |
| Public safety and homeland security.....           | 1,694,292     | 126,962                 | 120,634                               | -                                   | (1,446,696)  | -                           | (1,446,696)    | -                  |
| Labor and workforce development.....               | 633,817       | 187,256                 | 261,492                               | -                                   | (185,069)  | -                           | (185,069)      | -                  |
| Lottery.....                                       | 3,689,221     | 4,656,110               | -                                     | -                                   | 966,889  | -                           | 966,889        | -                  |
| Total governmental activities.....                 | 35,948,184    | 7,155,550               | 8,849,046                             | 487,365                             | (19,456,222)   | -                           | (19,456,222)   | -                  |
| Business-Type Activities:                          |               |                         |                                       |                                     |  |                             |                |                    |
| Unemployment Compensation.....                     | 1,430,130     | 1,698,249               | 81,909                                | -                                   | -  | 350,028                     | 350,028        | -                  |
| Higher Education:                                  |               |                         |                                       |                                     |  |                             |                |                    |
| University of Massachusetts.....                   | 2,233,634     | 1,194,393               | 459,890                               | -                                   | -  | (579,351)                   | (579,351)      | -                  |
| State Colleges.....                                | 624,470       | 287,195                 | 76,768                                | -                                   | -  | (260,507)                   | (260,507)      | -                  |
| Community Colleges.....                            | 627,400       | 190,808                 | 127,818                               | -                                   | -  | (308,774)                   | (308,774)      | -                  |
| Total business-type activities.....                | 4,915,634     | 3,370,645               | 746,385                               | -                                   | -  | (798,604)                   | (798,604)      | -                  |
| Total primary government.....                      | \$ 40,863,818 | \$ 10,526,195           | \$ 9,595,431                          | \$ 487,365                          | (19,456,222)   | (798,604)                   | (20,254,826)   | -                  |
| Component Units:                                   |               |                         |                                       |                                     |  |                             |                |                    |
| Massachusetts Bay Transportation Authority.....    | \$ 1,533,997  | \$ 431,622              | \$ 873,391                            | \$ 186,254                          | -  | -                           | -              | (42,730)           |
| Massachusetts Turnpike Authority.....              | 407,410       | 304,964                 | 21,537                                | -                                   | -  | -                           | -              | (80,909)           |
| Massachusetts Water Pollution Abatement Trust..... | 154,527       | 5,301                   | 7,853                                 | -                                   | -  | -                           | -              | (141,373)          |
| Other nonmajor component units.....                | 698,877       | 526,695                 | 148,181                               | 64,596                              | -  | -                           | -              | 40,595             |
| Total component units.....                         | \$ 2,794,811  | \$ 1,268,582            | \$ 1,050,962                          | \$ 250,850                          | -  | -                           | -              | (224,417)          |

(continued)



|   | Primary Government         |                             |                       | Component<br>Units  |
|---|----------------------------|-----------------------------|-----------------------|---------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total                 |                     |
| General revenues:                                 |                            |                             |                       |                     |
| Taxes:  |                            |                             |                       |                     |
| Income .....                                      | 11,567,070                 | -                           | 11,567,070            | -                   |
| Sales taxes .....                                 | 4,083,973                  | -                           | 4,083,973             | -                   |
| Corporate taxes .....                             | 1,565,151                  | -                           | 1,565,151             | -                   |
| Motor and special fuel taxes .....                | 677,716                    | -                           | 677,716               | -                   |
| Other taxes .....                                 | 2,107,279                  | -                           | 2,107,279             | -                   |
| Miscellaneous:                                    |                            |                             |                       |                     |
| Investment earnings .....                         | 336,203                    | 153,764                     | 489,967               | 283,804             |
| Tobacco settlement .....                          | 247,340                    | -                           | 247,340               | -                   |
| Contribution from municipalities .....            | 42,795                     | -                           | 42,795                | -                   |
| Other revenue .....                               | 691,670                    | 162,144                     | 853,814               | 22,940              |
| Gain on sale of fixed assets .....                | -                          | -                           | -                     | 58,213              |
| Transfers .....                                   | (1,167,367)                | 1,167,367                   | -                     | -                   |
| <b>Total general revenues and transfers</b> ..... | <b>20,151,830</b>          | <b>1,483,275</b>            | <b>21,635,105</b>     | <b>364,957</b>      |
| <b>Change in net assets</b> .....                 | <b>695,608</b>             | <b>684,671</b>              | <b>1,380,279</b>      | <b>140,540</b>      |
| Net assets - beginning (re-stated) .....          | (10,292,385)               | 3,648,410                   | (6,643,975)           | 7,145,200           |
| <b>Net assets - ending</b> .....                  | <b>\$ (9,596,777)</b>      | <b>\$ 4,333,081</b>         | <b>\$ (5,263,696)</b> | <b>\$ 7,285,740</b> |

The notes to the financial statements are an integral part of this statement.

(concluded)



Massachusetts ranks 1st nationally in value of average direct market sales per farm at \$24,900 per farm and ranks 7th nationally in total value of direct sales, following California, New York,

Pennsylvania, Michigan, Ohio, and Washington and ranks 3rd in the U.S. for farmland value at \$9,234 per acre. We rank 13th nationwide in organic sales with 129 farms totaling \$7.8 million in sales. Massachusetts is proud of the over 250 farm attractions open to the public offering interesting and educational activities that will create memorable experiences.

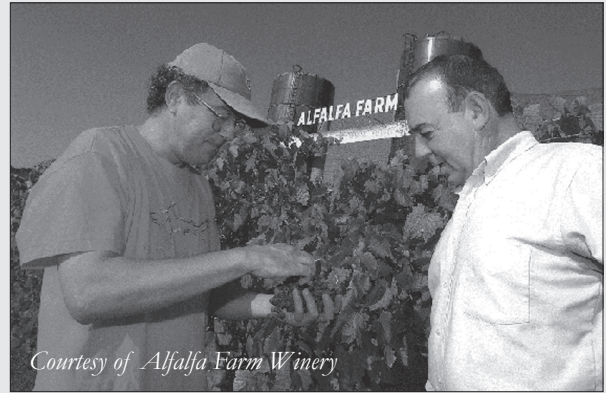
In recent years there has been an increasing interest in preserving historic and scenic landscapes in Massachusetts and around the country. This directly relates to conservation and open-space issues. Agriculture, like any business, depends on markets to be a productive landscape. One way farms in the U.S. have found to address these issues is through a business model called CSAs: Community Supported Agriculture. This is the practice of pre-selling "shares" of the crop to consumers at the start of the growing season to be picked up by the share holders as the crop is harvested.

*Sources: New England Agricultural Statistics 2004 and U.S. Census of Agriculture 2002, University of Massachusetts' Donahue Institute, Department of Agricultural Resources.*



Cultivation of the cranberry began around 1816, shortly after Captain Henry Hall, of Dennis, Massachusetts, noticed that the wild cranberries in his bogs grew better when sand blew over them. Captain Hall began transplanting his cranberry vines, fencing them in, and spreading sand on them himself. When others heard of Hall's technique, it was quickly copied.

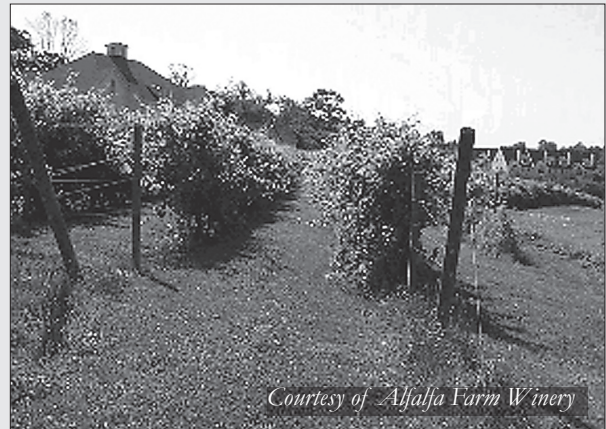
*Courtesy of Cape Cod Cranberry Growers' Association*



*Courtesy of Alfalfa Farm Winery*

### Alfalfa Farm Winery

Agri-tourism encompasses a variety of activities, including farm tours, farm vacations, farm bed & breakfast accommodations, hiking, nature study, cross country skiing, picnics, hayrides, workshops, fee hunting and fishing, to name just a few.



*Courtesy of Alfalfa Farm Winery*

Alfalfa Farm Winery in Topsfield has developed a CSA for their wine, offering a share that consists of a case of wine. Because wine grapes are a value-added crop, the process takes about a year from harvest to consumption. They also offer tasting parties, host weddings and harvest parties where you cut bunches of ripe, luscious grapes right off the vines and help load them into the crusher.





# Governmental Fund Financial Statements



Hawk's Wing Farm is an innovative Co-operative. Through member supported contributions, the farm raises naturally grown, organic seed fruit and vegetables. It is a repurposed sand pit. For 40 years contractors removed the sand and gravel that the glacier had spent millennia depositing.

Now the Snowden family is filling it back up, creating rich organic soil in 4 acres of what was a dusty sand pit. Thanks to the Town of Yarmouth's D.P.W. and the Town Landfill manager, the yellow, sand floor was covered with 2,200 cubic yards of black, composted leaf mulch from the town dump.

Hawk's Wing was the winner of a Mass Technology Grant for \$49,000 to build and install a 10Kw wind tower at the back of the farm. It will allow them to be completely self sustaining, incurring no electrical expense from the Grid.

The Farm is also applying for a grant to become the first handicap accessible farm in the state to make the fields accessible and raised, so that a wheelchair can easily be maneuvered among the rows. In addition the Farm is home to Cape Cod Doggy Day Care offering a high-quality daycare offering daily care and over-night boarding.



*Photographs courtesy Billy Snowden, Hawk's Wing Farm*



**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**  
**(Amounts in thousands)**

|   | General             | Highway            | Lotteries        | Massachusetts<br>School<br>Building<br>Authority | Other<br>Governmental<br>Funds | Total                |
|---|---------------------|--------------------|------------------|--|--------------------------------|----------------------|
| <b>ASSETS</b>   |                     |                    |                  |  |                                |                      |
| Cash and short-term investments.....                            | \$ 2,207,489        | \$ -               | \$ -             | \$ 833,413                                       | \$ 1,404,240                   | \$ 4,445,142         |
| Cash with fiscal agent.....                                     | -                   | 10,276             | -                | -  | 1,092,711                      | 1,102,987            |
| Investments and restricted investments.....                     | 371,442             | -                  | -                | 1,608,224  | 552,515                        | 2,532,181            |
| Receivables, net of allowance for uncollectibles:               |                     |                    |                  |  |                                |                      |
| Taxes.....  | 2,661,983           | 50,538             | -                | 40,380   | 71,272                         | 2,824,173            |
| Due from federal government.....                                | 994,391             | -                  | -                | -  | 414,122                        | 1,408,513            |
| Other receivables.....  | 91,488              | 1,258              | 5,084            | 5,544  | 251,995                        | 355,369              |
| Due from cities and towns.....                                  | 7,115               | -                  | -                | -  | 51,522                         | 58,637               |
| Due from other funds.....                                       | 1,639,506           | -                  | -                | -  | 74,582                         | 1,714,088            |
| Due from component units.....                                   | 7,860               | -                  | -                | -  | -                              | 7,860                |
| <b>Total assets.....</b>  | <b>\$ 7,981,274</b> | <b>\$ 62,072</b>   | <b>\$ 5,084</b>  | <b>\$ 2,487,561</b>                              | <b>\$ 3,912,959</b>            | <b>\$ 14,448,950</b> |
| <b>LIABILITIES AND FUND BALANCES</b>                            |                     |                    |                  |  |                                |                      |
| <b>Liabilities:</b>   |                     |                    |                  |  |                                |                      |
| Accounts payable.....   | \$ 1,576,848        | \$ 9,362           | \$ 73,968        | \$ 41,843  | \$ 941,672                     | \$ 2,643,693         |
| Accrued payroll.....  | 69,111              | 6,276              | -                | -  | 8,668                          | 84,055               |
| Tax refunds and abatements payable.....                         | 766,107             | -                  | -                | -  | -                              | 766,107              |
| Due to other funds.....   | -                   | 1,291,191          | 41,466           | -  | 370,672                        | 1,703,329            |
| Due to component units.....                                     | 91,047              | 13,133             | -                | -  | 105,392                        | 209,572              |
| Due to federal government.....                                  | 16,410              | -                  | -                | -  | 51                             | 16,461               |
| Deferred inflow of resources.....                               | 524,597             | 79                 | 5,182            | -  | 9,846                          | 539,704              |
| Claims and judgments.....                                       | 38,000              | -                  | -                | -  | 16,200                         | 54,200               |
| Bonds, notes payable and certificates of participation.....     | -                   | -                  | -                | 455,000  | -                              | 455,000              |
| School construction grants payable.....                         | -                   | -                  | -                | 84,968   | -                              | 84,968               |
| Other accrued liabilities.....                                  | -                   | -                  | -                | -  | 156,002                        | 156,002              |
| <b>Total liabilities.....</b>                                   | <b>3,082,120</b>    | <b>1,320,041</b>   | <b>120,616</b>   | <b>581,811</b>                                   | <b>1,608,503</b>               | <b>6,713,091</b>     |
| <b>Fund balances (deficits):</b>                                |                     |                    |                  |  |                                |                      |
| Reserved for:   |                     |                    |                  |  |                                |                      |
| Retirement of indebtedness.....                                 | -                   | 10,276             | -                | -  | 930,482                        | 940,758              |
| Central artery workers' compensation and general liability..... | -                   | -                  | -                | -  | 100,063                        | 100,063              |
| Amounts due from Municipalities.....                            | -                   | -                  | -                | -  | 51,522                         | 51,522               |
| Unreserved:   |                     |                    |                  |  |                                |                      |
| Designated for reappropriated accounts, reported in:            |                     |                    |                  |  |                                |                      |
| General.....  | 319,399             | -                  | -                | -  | -                              | 319,399              |
| Special revenue.....  | 2,435,061           | 642                | -                | -  | 20,995                         | 2,456,698            |
| Capital projects.....   | -                   | -                  | -                | -  | 128,048                        | 128,048              |
| Undesignated:   |                     |                    |                  |  |                                |                      |
| General.....  | 2,144,694           | -                  | -                | -  | -                              | 2,144,694            |
| Special revenue.....  | -                   | (1,268,887)        | (115,532)        | 1,905,750  | 1,448,379                      | 1,969,710            |
| Capital projects.....   | -                   | -                  | -                | -  | (380,033)                      | (380,033)            |
| Permanent trust funds.....                                      | -                   | -                  | -                | -  | 5,000                          | 5,000                |
| <b>Fund balances (deficits).....</b>                            | <b>4,899,154</b>    | <b>(1,257,969)</b> | <b>(115,532)</b> | <b>1,905,750</b>                                 | <b>2,304,456</b>               | <b>7,735,859</b>     |
| <b>Total liabilities and fund balances.....</b>                 | <b>\$ 7,981,274</b> | <b>\$ 62,072</b>   | <b>\$ 5,084</b>  | <b>\$ 2,487,561</b>                              | <b>\$ 3,912,959</b>            | <b>\$ 14,448,950</b> |

The notes to the financial statements are an integral part of this statement.

# Reconciliation of Fund Balances to the Statement of Net Assets

June 30, 2007  
(Amounts in thousands)

|   |                     |
|---|---------------------|
| <b>Total fund balances - governmental funds .....</b> | <b>\$ 7,735,859</b> |
|---|---------------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and, therefore, are not reported in the funds. Those assets consist of:

|  |            |            |
|--|------------|------------|
| Land.....  | \$ 753,152 |            |
| Construction in process.....   | 2,148,211  |            |
| Depreciable capital assets and infrastructure,<br>net of \$7,583,596 of accumulated depreciation.....          | 8,285,053  |            |
| Central Artery / Tunnel Project construction in process.....   | 127,681    |            |
| Central Artery / Tunnel Project untransferred assets in use<br>net of \$677,336 accumulated depreciation ..... | 7,235,496  |            |
| Capital assets, net of accumulated depreciation.....   |            | 18,549,593 |

|   |  |         |
|---|--|---------|
| Amounts presented in the statement of net assets, but not in fund<br>balances due to differences in revenue recognition under<br>different bases of accounting..... |  | 539,704 |
| Massachusetts School Building Authority assets.....   |  | 29,833  |

|                                |  |           |
|--------------------------------|--|-----------|
| Lottery annuity contracts..... |  | 1,411,814 |
|--------------------------------|--|-----------|

|  |  |          |
|--|--|----------|
| Elimination of due from / due to activity between state departments<br>within primary government and business type activities..... |  | (10,759) |
|--|--|----------|

Certain liabilities, including bonds payable, are not due and  
payable in the current period and therefore are not reported  
in the funds. These liabilities include:

|   |              |              |
|---|--------------|--------------|
| Pension over \ (underfunding) State Retirement Systems<br>net pension obligation.....   | (75,603)     |              |
| Commonwealth bonded debt.....   | (18,736,961) |              |
| Accrued interest on bonds.....  | (290,711)    |              |
| Unamortized Bond Premiums.....  | (102,043)    |              |
| Tax refunds and abatements payable.....   | (49,000)     |              |
| Massachusetts school building authority bonded debt.....  | (4,187,296)  |              |
| Massachusetts school building authority grants to municipalities.....   | (4,480,246)  |              |
| Lottery prizes payable.....   | (1,411,814)  |              |
| Contract assistance payable.....  | (89,015)     |              |
| Amounts to be transferred to component units and related<br>organizations in conjunction with the<br>Central Artery / Tunnel Project..... | (7,363,177)  |              |
| Capital leases.....   | (378,938)    |              |
| Claims and judgments.....   | (132,300)    |              |
| Employee benefits, including compensated absences,<br>health insurance benefits and other compensation claims.....                        | (555,717)    |              |
| Long - term liabilities (including current portions).....   |              | (37,852,821) |

|   |                       |
|---|-----------------------|
| <b>Total net assets - governmental activities .....</b> | <b>\$ (9,596,777)</b> |
|---|-----------------------|

The notes to the financial statements are an integral part of this statement.



# Statement of Revenues, Expenditures and Changes in Fund Balances

## Governmental Funds

Fiscal Year Ended June 30, 2007

(Amounts in thousands)

|   | General             | Highway               | Lotteries           | Massachusetts<br>School<br>Building<br>Authority | Other<br>Governmental<br>Funds | Total               |
|---|---------------------|-----------------------|---------------------|--|--------------------------------|---------------------|
| <b>REVENUES</b>   |                     |                       |                     |  |                                |                     |
| Taxes.....  | \$ 17,933,736       | \$ 578,928            | \$ 1,122            | \$ 562,221                                       | \$ 909,166                     | \$ 19,985,173       |
| Assessments.....  | 145,962             | 12,769                | -                   | -  | 702,291                        | 861,022             |
| Federal grants and reimbursements.....                                    | 6,163,260           | 856                   | -                   | -  | 3,171,272                      | 9,335,388           |
| Departmental.....   | 1,322,906           | 398,847               | 4,656,427           | -  | 220,827                        | 6,599,007           |
| Miscellaneous.....  | 436,373             | 1,570                 | 13,525              | 68,407   | 806,356                        | 1,326,231           |
| <b>Total revenues.....</b>  | <b>26,002,237</b>   | <b>992,970</b>        | <b>4,671,074</b>    | <b>630,628</b>                                   | <b>5,809,912</b>               | <b>38,106,821</b>   |
| <b>EXPENDITURES</b>   |                     |                       |                     |  |                                |                     |
| Current:  |                     |                       |                     |  |                                |                     |
| Legislature.....  | 59,053              | -                     | -                   | -  | -                              | 59,053              |
| Judiciary.....  | 796,533             | -                     | -                   | -  | 2,589                          | 799,122             |
| Inspector General.....  | 3,031               | -                     | -                   | -  | 137                            | 3,168               |
| Governor and Lieutenant Governor.....                                     | 5,121               | 3                     | -                   | -  | -                              | 5,124               |
| Secretary of the Commonwealth.....  | 45,200              | -                     | -                   | -  | 6,375                          | 51,575              |
| Treasurer and Receiver-General.....                                       | 50,760              | 869                   | 3,687,596           | 11,527   | 961,615                        | 4,712,367           |
| Auditor of the Commonwealth.....  | 18,266              | -                     | -                   | -  | 78                             | 18,344              |
| Attorney General.....   | 46,742              | 480                   | -                   | -  | 15,050                         | 62,272              |
| Ethics Commission.....  | 1,554               | -                     | -                   | -  | -                              | 1,554               |
| District Attorney.....  | 89,254              | 3,769                 | -                   | -  | 8,637                          | 101,660             |
| Office of Campaign and Political Finance.....                             | 1,104               | -                     | -                   | -  | 1,339                          | 2,443               |
| Sheriff's Departments.....  | 268,169             | 771                   | -                   | -  | 3,420                          | 272,360             |
| Disabled Persons Protection Commission.....                               | 1,903               | -                     | -                   | -  | -                              | 1,903               |
| Board of Library Commissioners.....                                       | 6,647               | -                     | -                   | -  | 3,073                          | 9,720               |
| Comptroller.....  | 12,027              | -                     | -                   | -  | 1,740                          | 13,767              |
| Administration and finance.....   | 1,672,853           | 6,078                 | -                   | -  | 169,397                        | 1,848,328           |
| Energy and Environmental affairs.....                                     | 223,299             | -                     | -                   | -  | 94,979                         | 318,278             |
| Housing and community development.....                                    | 95,313              | -                     | -                   | -  | 307,049                        | 402,362             |
| Early education and care.....   | 506,743             | -                     | -                   | -  | 10,904                         | 517,647             |
| Health and human services.....  | 4,653,992           | -                     | -                   | -  | 2,434,777                      | 7,088,769           |
| Transportation and public works.....                                      | 207,485             | 78,066                | -                   | -  | 64,674                         | 350,225             |
| Education.....  | 1,237,202           | -                     | -                   | -  | 810,520                        | 2,047,722           |
| Massachusetts school building authority.....                              | -                   | -                     | -                   | 1,411,351  | -                              | 1,411,351           |
| Higher education.....   | 113,652             | -                     | -                   | -  | 12,068                         | 125,720             |
| Public safety and homeland security.....                                  | 844,574             | 250,077               | -                   | -  | 142,925                        | 1,237,576           |
| Housing and economic development.....                                     | 168,331             | 55                    | -                   | -  | 343,683                        | 512,069             |
| Labor and workforce development.....                                      | 11,828              | -                     | -                   | -  | 68,901                         | 80,729              |
| Medicaid.....   | 7,571,347           | -                     | -                   | -  | 290,459                        | 7,861,806           |
| Pension.....  | 372,732             | -                     | -                   | -  | -                              | 372,732             |
| Direct local aid.....   | 5,064,364           | -                     | -                   | -  | 7,653                          | 5,072,017           |
| Capital outlay:   |                     |                       |                     |  |                                |                     |
| Local aid.....  | -                   | -                     | -                   | -  | 9,342                          | 9,342               |
| Capital acquisition and construction.....                                 | -                   | -                     | -                   | -  | 1,723,862                      | 1,723,862           |
| Debt service.....   | -                   | -                     | -                   | 186,316  | 2,351,818                      | 2,538,134           |
| <b>Total expenditures.....</b>  | <b>24,149,079</b>   | <b>340,168</b>        | <b>3,687,596</b>    | <b>1,609,194</b>                                 | <b>9,847,063</b>               | <b>39,633,099</b>   |
| <b>Excess (deficiency) of revenues<br/>over (under) expenditures.....</b> | <b>1,853,158</b>    | <b>652,802</b>        | <b>983,478</b>      | <b>(978,566)</b>                                 | <b>(4,037,151)</b>             | <b>(1,526,278)</b>  |
| <b>OTHER FINANCING SOURCES</b>  |                     |                       |                     |  |                                |                     |
| Bonds premium.....  | -                   | -                     | -                   | 76,688   | 52,448                         | 129,136             |
| Proceeds of general obligation bonds.....                                 | -                   | -                     | -                   | 1,500,000  | 1,603,940                      | 3,103,940           |
| Proceeds of refunding bonds.....  | -                   | -                     | -                   | -  | 1,427,835                      | 1,427,835           |
| Proceeds of capital leases.....   | 20,689              | -                     | -                   | -  | -                              | 20,689              |
| Transfers in for debt service.....  | -                   | -                     | -                   | -  | 2,339,662                      | 2,339,662           |
| Operating transfers in.....   | 1,873,313           | 701                   | -                   | -  | 2,400,079                      | 4,274,093           |
| <b>Total other financing sources.....</b>                                 | <b>1,894,002</b>    | <b>701</b>            | <b>-</b>            | <b>1,576,688</b>                                 | <b>7,823,964</b>               | <b>11,295,355</b>   |
| <b>OTHER FINANCING USES</b>   |                     |                       |                     |  |                                |                     |
| Payments to refunded bond escrow agent.....                               | -                   | -                     | -                   | -  | 1,520,290                      | 1,520,290           |
| Operating transfers out.....  | 1,239,525           | 105,478               | 1,101,668           | -  | 1,727,968                      | 4,174,639           |
| Transfers of appropriations.....  | 1,217,912           | -                     | -                   | -  | -                              | 1,217,912           |
| Transfers of bond proceeds.....   | -                   | -                     | -                   | -  | 48,909                         | 48,909              |
| Transfers out for debt service.....                                       | 1,312,643           | 771,810               | -                   | -  | 255,209                        | 2,339,662           |
| <b>Total other financing uses.....</b>                                    | <b>3,770,080</b>    | <b>877,288</b>        | <b>1,101,668</b>    | <b>-</b>   | <b>3,552,376</b>               | <b>9,301,412</b>    |
| <b>Total other financing sources and uses.....</b>                        | <b>(1,876,078)</b>  | <b>(876,587)</b>      | <b>(1,101,668)</b>  | <b>1,576,688</b>                                 | <b>4,271,588</b>               | <b>1,993,943</b>    |
| <b>Net change in fund balances.....</b>                                   | <b>(22,920)</b>     | <b>(223,785)</b>      | <b>(118,190)</b>    | <b>598,122</b>                                   | <b>234,437</b>                 | <b>467,665</b>      |
| Fund balances (deficits) at beginning of year.....                        | 4,922,074           | (1,034,184)           | 2,658               | 1,307,628  | 2,070,018                      | 7,268,194           |
| <b>Fund balances (deficits) at end of year.....</b>                       | <b>\$ 4,899,154</b> | <b>\$ (1,257,969)</b> | <b>\$ (115,532)</b> | <b>\$ 1,905,750</b>                              | <b>\$ 2,304,456</b>            | <b>\$ 7,735,859</b> |

The notes to the financial statements are an integral part of this statement.

# Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the fiscal year ended June 30, 2007  
(Amounts in thousands)

|   |                   |
|---|-------------------|
| <b>Net change in fund balances - total governmental funds .....</b>   | <b>\$ 467,665</b> |
| Amounts reported for governmental activities in the statement of activities are different because:  |                   |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in process, but excluding reductions and dispositions.....   | 380,723           |
| Amounts presented in the statement of activities, but not in the change in fund balances due to difference in revenue and expense recognition under different bases of accounting.....  | (41,768)          |
| Elimination of due from / due to activity between state departments within government and business-type activities.....   | 250               |
| The issuance of long - term debt provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long - term debt and related items..... | (275,555)         |
| Increase in Capital Leases.....   | (304,386)         |
| Massachusetts School Building Authority.....  | 80,074            |
| Net pension underfunding of retirement systems obligations.....   | 115,942           |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued interest, lottery prizes, claims and benefits that are reported in the statement of activities, but not in funds.....   | 272,663           |
| <b>Change in net assets of governmental activities.....</b>   | <b>\$ 695,608</b> |

The notes to the financial statements are an integral part of this statement.



19 acres of meadow, pond and saltwater wetlands along Barnstable Harbor under Conservation Restriction, Barnstable MA 2007. Project of the Barnstable Land Trust, Inc.

*Photo courtesy of The Compact of Cape Cod Conservation Trusts, Inc.*



28 acres and 8000 feet of tidal shoreline at Tobey's Island in Bourne under Conservation Restriction, Bourne MA 2007. Project of the Bourne Conservation Trust.

*Photo courtesy of The Compact of Cape Cod Conservation Trusts, Inc.*



9 acres around Lewis Farm in Truro under Conservation Restriction, Truro MA 2007. Project of the Truro Conservation Trust.

*Photo courtesy of The Compact of Cape Cod Conservation Trusts, Inc.*

Massachusetts property owners this year placed nearly 6,117 acres of their land under conservation restrictions, taking advantage of soon-to-expire federal tax incentives and creating an environmental legacy for future generations through agreements that protect natural resources and prohibit development.

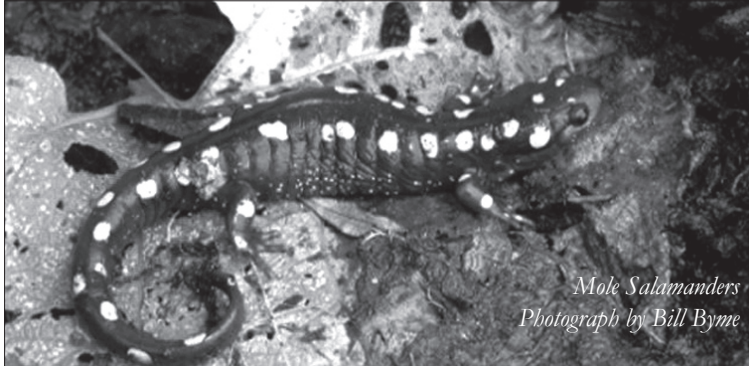
Energy and Environmental Affairs (EEA) Secretary Ian Bowles signed 182 conservation restriction (CRs) agreements making these requests permanent, preserving nearly 6,117 acres from Cape Cod to the Berkshires. In the vast majority of these cases, landowners donated the CRs to municipalities or private land trusts and are able to reap the benefits of a federal income tax provision that expires on December 31.

A CR is a legally binding agreement between a landowner and a public agency or private land trust, whereby the owner agrees to limit the use of his or her property in order to protect certain conservation values. Charged by law with reviewing CRs to ensure they benefit the public, Secretary Bowles this year approved covenants safeguarding a wide array of landscapes, including 600 acres surrounding a pond and abutting another pond and a mountainside in the Berkshires; 30 acres in Brewster protecting a brook with an active herring run within a National Historic Register District; nearly 300 acres of significant wildlife habitat on Nantucket; and 140 acres within an Area of Critical Environmental Concern in Central Massachusetts.

In addition to the 182 projects reviewed and approved by EEA, the Commonwealth's two land protection agencies - the Departments of Conservation and Recreation (DCR) and Fish and Game (DFG) - also completed a significant number of CRs during 2007, including DCR's 15 CRs on 1,710.6 acres and DFG's seven CRs protecting 1,009.7 acres. This brings the total amount of land the Commonwealth placed under CR protection so far this year totals over 8,836 acres.



# Proprietary Fund Financial Statements



*Mole Salamanders  
Photograph by Bill Byme*

Vernal pools are unique wildlife habitats best known for the amphibians and invertebrate animals that use them to breed. Vernal pools, also known as ephemeral pools, autumnal pools, and temporary woodland ponds, typically fill with water in the autumn or winter due to rising ground water and rainfall and remain ponded through the spring and into summer. Vernal pools dry completely by the middle or end of summer each year, or at least every few years. Many amphibian and invertebrate species rely on breeding habitat that is free of fish predators. The Natural Heritage & Endangered Species Program "certifies" the occurrence of vernal pools based on documentation of the pool's use by one or more groups of species that rely on vernal pools. Gathering information for certification is an excellent way for people to learn about vernal pools and the animals that use them, and to become involved in the protection of natural resources in Massachusetts.

The Vernal Pool Association is a non-profit organization which promotes the study, identification and appreciation of vernal pools and surrounding habitats. Visit them at [www.vernalpool.org](http://www.vernalpool.org).



*Photograph courtesy of Leo Kenney*

The Blanding's turtle is a facultative species which uses kettle holes, vernal pools, etc. as a feeding resource. It is rare and unevenly distributed in the state.



*Photograph courtesy of Leo Kenney*

*In winter Vernal pools are easily visible when ice-covered in the leafless forest.*



*Photograph © Tom Lautzenheiser*

*In spring Vernal pools contain water for a few months and early summer. The greatest amount of biological activity in a pool takes place in the spring when the ice thaws.*



*Photograph courtesy of Leo Kenney*

*In summer or early fall Vernal pools are often completely dry, keeping them free of populations of fish. Some pools retain water year round yet have a low concentration of oxygen when warm and shallow, a condition which precludes fish. The person is holding a sign with pool information for certification.*

# Statement of Net Assets

Proprietary Funds

June 30, 2007

(Amounts in thousands)

|   | Unemployment<br>Compensation<br>Trust Fund | University of<br>Massachusetts | State<br>Colleges | Community<br>Colleges | Total               |
|---|--|--------------------------------|-------------------|-----------------------|---------------------|
| <b>ASSETS</b>   |  |                                |                   |                       |                     |
| Current assets:   |  |                                |                   |                       |                     |
| Cash and cash equivalents.....                            | \$ -                                       | \$ 59,862                      | \$ 177,994        | \$ 78,727             | \$ 316,583          |
| Short-term investments .....                              | -  | 62,873                         | 60,302            | 42,563                | 165,738             |
| Receivables, net of allowance for uncollectibles:         |  |                                |                   |                       |                     |
| Federal grants and reimbursements receivable.....         | -  | 46,239                         | -                 | -                     | 46,239              |
| Loans.....  | -  | 38,247                         | 1,391             | 163                   | 39,801              |
| Other receivables.....                                    | 416,184                                    | 240,710                        | 12,510            | 21,821                | 691,225             |
| Due from affiliates.....                                  | -  | 1,471                          | -                 | -                     | 1,471               |
| Other current assets.....                                 | -  | 32,586                         | 9,954             | 5,046                 | 47,586              |
| <b>Total current assets.....</b>                          | <b>416,184</b>                             | <b>481,988</b>                 | <b>262,151</b>    | <b>148,320</b>        | <b>1,308,643</b>    |
| Noncurrent assets:  |  |                                |                   |                       |                     |
| Cash and cash equivalents - restricted.....               | -  | 446,845                        | 36,212            | 3,875                 | 486,932             |
| Long-term investments.....                                | -  | 751,359                        | 124,745           | 62,337                | 938,441             |
| Investments, restricted investments and annuity contracts | -  | -                              | 7,283             | 6,082                 | 13,365              |
| Accounts receivable, net.....                             | -  | 34,949                         | 346               | -                     | 35,295              |
| Loans receivable, net.....                                | -  | -                              | 14,289            | 1,440                 | 15,729              |
| Non-depreciable capital assets.....                       | -  | 316,292                        | 199,228           | 34,207                | 549,727             |
| Depreciable capital assets, net.....                      | -  | 1,404,016                      | 516,558           | 269,055               | 2,189,629           |
| Other noncurrent assets.....                              | -  | 21,534                         | 14,400            | 1,574                 | 37,508              |
| Other noncurrent assets - restricted.....                 | 1,257,898                                  | -                              | -                 | -                     | 1,257,898           |
| <b>Total noncurrent assets.....</b>                       | <b>1,257,898</b>                           | <b>2,974,995</b>               | <b>913,061</b>    | <b>378,570</b>        | <b>5,524,524</b>    |
| <b>Total assets.....</b>                                  | <b>1,674,082</b>                           | <b>3,456,983</b>               | <b>1,175,212</b>  | <b>526,890</b>        | <b>6,833,167</b>    |
| <b>LIABILITIES</b>  |  |                                |                   |                       |                     |
| Current liabilities:                                      |  |                                |                   |                       |                     |
| Accounts payable and other liabilities.....               | 35,158                                     | 220,228                        | 18,375            | 19,544                | 293,305             |
| Accrued payroll.....                                      | -  | 60,712                         | 22,609            | 22,027                | 105,348             |
| Compensated absences.....                                 | -  | 62,446                         | 20,842            | 24,361                | 107,649             |
| Accrued interest payable.....                             | -  | 9,690                          | 88                | 307                   | 10,085              |
| Tax refunds and abatements payable.....                   | 24,505                                     | -                              | -                 | -                     | 24,505              |
| Deferred inflow of resources.....                         | -  | 63,643                         | 13,985            | 3,606                 | 81,234              |
| Student deposits and unearned revenues .....              | -  | 10,576                         | 7,233             | 10,788                | 28,597              |
| Due to affiliates.....                                    | -  | 1,471                          | -                 | -                     | 1,471               |
| Capital leases.....                                       | -  | 12,229                         | 3,122             | 3,960                 | 19,311              |
| Bonds, notes payable and other obligations.....           | -  | 40,070                         | 13,143            | 2,257                 | 55,470              |
| <b>Total current liabilities.....</b>                     | <b>59,663</b>                              | <b>481,065</b>                 | <b>99,397</b>     | <b>86,850</b>         | <b>726,975</b>      |
| Noncurrent liabilities:                                   |  |                                |                   |                       |                     |
| Compensated absences.....                                 | -  | 21,936                         | 15,475            | 16,433                | 53,844              |
| Due to federal government - grants.....                   | -  | -                              | 8,824             | 1,367                 | 10,191              |
| Deferred inflow of resources.....                         | -  | 12,192                         | 4,904             | -                     | 17,096              |
| Capital leases.....                                       | -  | 42,356                         | 13,889            | 7,887                 | 64,132              |
| Bonds, notes payable and other obligations.....           | -  | 1,004,539                      | 525,178           | 39,430                | 1,569,147           |
| Other noncurrent liabilities.....                         | -  | 43,662                         | 10,805            | 4,234                 | 58,701              |
| <b>Total noncurrent liabilities.....</b>                  | <b>-</b>                                   | <b>1,124,685</b>               | <b>579,075</b>    | <b>69,351</b>         | <b>1,773,111</b>    |
| <b>Total liabilities.....</b>                             | <b>59,663</b>                              | <b>1,605,750</b>               | <b>678,472</b>    | <b>156,201</b>        | <b>2,500,086</b>    |
| <b>NET ASSETS</b>   |  |                                |                   |                       |                     |
| Invested in capital assets, net of related debt.....      | -  | 885,130                        | 250,136           | 257,097               | 1,392,363           |
| Restricted for:   |  |                                |                   |                       |                     |
| Unemployment benefits.....                                | 1,614,419                                  | -                              | -                 | -                     | 1,614,419           |
| Other purposes.....                                       | -  | 511,380                        | 113,000           | 56,708                | 681,088             |
| Unrestricted.....   | -  | 454,723                        | 133,604           | 56,884                | 645,211             |
| <b>Total net assets.....</b>                              | <b>\$ 1,614,419</b>                        | <b>\$ 1,851,233</b>            | <b>\$ 496,740</b> | <b>\$ 370,689</b>     | <b>\$ 4,333,081</b> |

The notes to the financial statements are an integral part of this statement.



# Statement of Revenues, Expenses and Changes in Net Assets

## Proprietary Funds

Fiscal Year Ended June 30, 2007

(Amounts in thousands)

|  | Unemployment<br>Compensation<br>Trust Fund | University of<br>Massachusetts | State<br>Colleges | Community<br>Colleges | Total               |
|--|--|--------------------------------|-------------------|-----------------------|---------------------|
| <b>Operating revenues:</b>                                   |  |                                |                   |                       |                     |
| Unemployment compensation contribution.....                  | \$ 1,620,310                               | \$ -                           | \$ -              | \$ -                  | \$ 1,620,310        |
| Net tuition and fees.....                                    | -  | 435,806                        | 218,005           | 150,535               | 804,346             |
| Federal grants and reimbursements.....                       | 33,706                                     | 459,890                        | 76,768            | 127,818               | 698,182             |
| Auxiliary enterprises.....                                   | -  | 206,021                        | 45,235            | 14,672                | 265,928             |
| Sales & services.....  | -  | 497,708                        | 4,261             | -                     | 501,969             |
| Miscellaneous.....   | 77,939                                     | 54,858                         | 19,694            | 25,601                | 178,092             |
| <b>Total operating revenues.....</b>                         | <b>1,731,955</b>                           | <b>1,654,283</b>               | <b>363,963</b>    | <b>318,626</b>        | <b>4,068,827</b>    |
| <b>Operating expenses:</b>                                   |  |                                |                   |                       |                     |
| Unemployment compensation.....                               | 1,430,130                                  | -                              | -                 | -                     | 1,430,130           |
| Instruction.....   | -  | 526,049                        | 213,933           | 231,816               | 971,798             |
| Research.....  | -  | 320,889                        | 71                | 147                   | 321,107             |
| Academic support.....  | -  | 120,240                        | 67,085            | 80,265                | 267,590             |
| Student services.....  | -  | 87,085                         | 64,261            | 87,888                | 239,234             |
| Scholarships and fellowships.....                            | -  | 34,300                         | 8,829             | 31,527                | 74,656              |
| Public service.....  | -  | 86,019                         | 5,641             | 8,122                 | 99,782              |
| Operation and maintenance of plant.....                      | -  | 166,082                        | 74,461            | 62,190                | 302,733             |
| Institutional support.....                                   | -  | 155,520                        | 78,400            | 79,948                | 313,868             |
| Other operating expenses.....                                | -  | 405,229                        | 4,658             | 4,720                 | 414,607             |
| Depreciation.....  | -  | 133,350                        | 37,402            | 22,517                | 193,269             |
| Auxiliary operations.....                                    | -  | 162,134                        | 47,533            | 16,253                | 225,920             |
| <b>Total operating expenses.....</b>                         | <b>1,430,130</b>                           | <b>2,196,897</b>               | <b>602,274</b>    | <b>625,393</b>        | <b>4,854,694</b>    |
| <b>Operating income (loss).....</b>                          | <b>301,825</b>                             | <b>(542,614)</b>               | <b>(238,311)</b>  | <b>(306,767)</b>      | <b>(785,867)</b>    |
| <b>Non-operating revenues (expenses):</b>                    |  |                                |                   |                       |                     |
| Other revenues.....  | -  | 116,819                        | 25,330            | 19,995                | 162,144             |
| Other expenses.....  | -  | (36,737)                       | (22,196)          | (2,007)               | (60,940)            |
| Investment income.....                                       | 48,203                                     | 110,982                        | 29,146            | 13,636                | 201,967             |
| <b>Total non-operating revenues (expenses).....</b>          | <b>48,203</b>                              | <b>191,064</b>                 | <b>32,280</b>     | <b>31,624</b>         | <b>303,171</b>      |
| <b>Income (loss) before contributions and transfers.....</b> | <b>350,028</b>                             | <b>(351,550)</b>               | <b>(206,031)</b>  | <b>(275,143)</b>      | <b>(482,696)</b>    |
| Transfers in.....  | -  | 606,933                        | 264,369           | 296,065               | 1,167,367           |
| <b>Change in net assets.....</b>                             | <b>350,028</b>                             | <b>255,383</b>                 | <b>58,338</b>     | <b>20,922</b>         | <b>684,671</b>      |
| Total net assets - beginning (re-stated).....                | 1,264,391                                  | 1,595,850                      | 438,402           | 349,767               | 3,648,410           |
| <b>Total net assets - ending .....</b>                       | <b>\$ 1,614,419</b>                        | <b>\$ 1,851,233</b>            | <b>\$ 496,740</b> | <b>\$ 370,689</b>     | <b>\$ 4,333,081</b> |

The notes to the financial statements are an integral part of this statement.

# Statement of Cash Flows

## Proprietary Funds

June 30, 2007

(Amounts in thousands)

|   | Unemployment<br>Compensation<br>Trust Fund | University of<br>Massachusetts | State Colleges      | Community<br>Colleges | Total               |
|---|--|--------------------------------|---------------------|-----------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |  |                                |                     |                       |                     |
| Collection of unemployment contributions.....   | \$ 1,295,051                               | \$ -                           | \$ -                | \$ -                  | \$ 1,295,051        |
| Tuition, residence, dining and other student fees.....  | -  | 455,658                        | 220,050             | 154,877               | 830,585             |
| Research grants and contracts.....  | -  | 436,775                        | 75,545              | 124,706               | 637,026             |
| Payments to suppliers.....  | -  | (794,033)                      | (168,819)           | (147,730)             | (1,110,582)         |
| Payments to employees.....  | -  | (1,044,201)                    | (317,161)           | (343,576)             | (1,704,938)         |
| Payments to students.....   | -  | (28,200)                       | (6,475)             | (25,566)              | (60,241)            |
| Payments for unemployment benefits.....   | (1,421,193)                                | -                              | -                   | -                     | (1,421,193)         |
| Collection of loans to students and employees.....  | -  | 8,259                          | 1,923               | 219                   | 10,401              |
| Income from contract services.....  | -  | 480,309                        | 927                 | 899                   | 482,135             |
| Maintenance costs.....  | -  | -                              | (4,038)             | 631                   | (3,407)             |
| Auxilliary enterprise charges.....  | -  | 250,171                        | 37,134              | 204                   | 287,509             |
| Other receipts.....   | 77,939                                     | (248,954)                      | 21,938              | 26,162                | (122,915)           |
| <b>Net cash provided by (used by) operating activities.....</b>   | <b>(48,203)</b>                            | <b>(484,216)</b>               | <b>(138,976)</b>    | <b>(209,174)</b>      | <b>(880,569)</b>    |
| <b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES</b>  |  |                                |                     |                       |                     |
| State appropriations.....   | -  | 636,372                        | 216,242             | 228,050               | 1,080,664           |
| Grants and contracts.....   | -  | -                              | 1,881               | 1,450                 | 3,331               |
| Student organizations agency transactions.....  | -  | (290)                          | 23                  | -                     | (267)               |
| Other receipts (payments).....  | -  | (21,728)                       | (6,458)             | (724)                 | (28,910)            |
| <b>Net cash provided by non-capital financing activities.....</b>   | <b>-</b>                                   | <b>614,354</b>                 | <b>211,688</b>      | <b>228,776</b>        | <b>1,054,818</b>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |  |                                |                     |                       |                     |
| Capital appropriations.....   | -  | 73,590                         | 9,938               | 6,587                 | 90,115              |
| Purchases of capital assets.....  | -  | (214,763)                      | (111,157)           | (11,605)              | (337,525)           |
| Proceeds from sales of capital assets.....  | -  | -                              | 3,750               | -                     | 3,750               |
| Proceeds from revenue obligation debt issuance.....   | -  | 232,079                        | (290)               | 500                   | 232,289             |
| Other capital asset activity.....   | -  | 1,926                          | 1,486               | 2,424                 | 5,836               |
| Investments held by bond trustee, net.....  | -  | (150,568)                      | 5,483               | (45)                  | (145,130)           |
| Principal paid on capital debt and leases.....  | -  | (148,229)                      | (13,740)            | (5,449)               | (167,418)           |
| Interest paid on capital debt and leases.....   | -  | (38,993)                       | (25,672)            | (2,236)               | (66,901)            |
| <b>Net cash provided by (used in) capital financing activities.....</b>   | <b>-</b>                                   | <b>(244,958)</b>               | <b>(130,202)</b>    | <b>(9,824)</b>        | <b>(384,984)</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |  |                                |                     |                       |                     |
| Proceeds from sales and maturities of investments.....  | -  | 1,489,153                      | 227,996             | 39,791                | 1,756,940           |
| Purchases of investments.....   | -  | (1,419,361)                    | (160,043)           | (41,306)              | (1,620,710)         |
| Investment earnings.....  | 48,203                                     | 31,832                         | 23,117              | 7,673                 | 110,825             |
| <b>Net cash provided by (used by) investing activities.....</b>   | <b>48,203</b>                              | <b>101,624</b>                 | <b>91,070</b>       | <b>6,158</b>          | <b>247,055</b>      |
| <b>Net increase (decrease) in cash and cash equivalents.....</b>  | <b>-</b>                                   | <b>(13,196)</b>                | <b>33,580</b>       | <b>15,936</b>         | <b>36,320</b>       |
| Cash and cash equivalents at the beginning of the fiscal year.....  | -  | 519,903                        | 180,626             | 66,666                | 767,195             |
| <b>Cash and cash equivalents at the end of the fiscal year.....</b>   | <b>\$ -</b>                                | <b>\$ 506,707</b>              | <b>\$ 214,206</b>   | <b>\$ 82,602</b>      | <b>\$ 803,515</b>   |
| <b>Reconciliation of operating revenues net income (loss) cash provided (used) by operating activities</b>      |  |                                |                     |                       |                     |
| <b>Operating income (loss).....</b>   | <b>\$ 301,825</b>                          | <b>\$ (542,614)</b>            | <b>\$ (238,311)</b> | <b>\$ (306,767)</b>   | <b>\$ (785,867)</b> |
| <b>Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:</b> |  |                                |                     |                       |                     |
| Depreciation expense.....   | -  | 133,332                        | 37,098              | 22,246                | 192,676             |
| Fringe benefits paid by the Commonwealth.....   | -  | -                              | 59,695              | 71,039                | 130,734             |
| Changes in assets and liabilities:  |  |                                |                     |                       |                     |
| Accounts receivable, prepaids and other assets.....   | 4,578                                      | (23,991)                       | (893)               | 2,596                 | (17,710)            |
| Accounts payable, accrued liabilities and benefits.....   | 8,937                                      | 5,565                          | (16)                | 2,295                 | 16,781              |
| Student deposits and other unearned and deferred revenues.....  | (17,596)                                   | 18,760                         | 2,431               | (1,352)               | 2,243               |
| Other noncurrent assets - restricted and liabilities.....   | (345,947)                                  | (75,268)                       | 1,020               | 769                   | (419,426)           |
| <b>Net cash provided by (used by) operating activities.....</b>   | <b>\$ (48,203)</b>                         | <b>\$ (484,216)</b>            | <b>\$ (138,976)</b> | <b>\$ (209,174)</b>   | <b>\$ (880,569)</b> |

### Non-cash investing, capital and financing activities:

The University System had \$754,000 of non-cash activities, and the State and Community Colleges had \$ 159,721,000 of non-cash activities in the form of completed capital projects from the Commonwealth at net book value and non-cash asset acquisitions.

The notes to the financial statements are an integral part of this statement.

# *Fiduciary Fund*

## *Financial Statements*



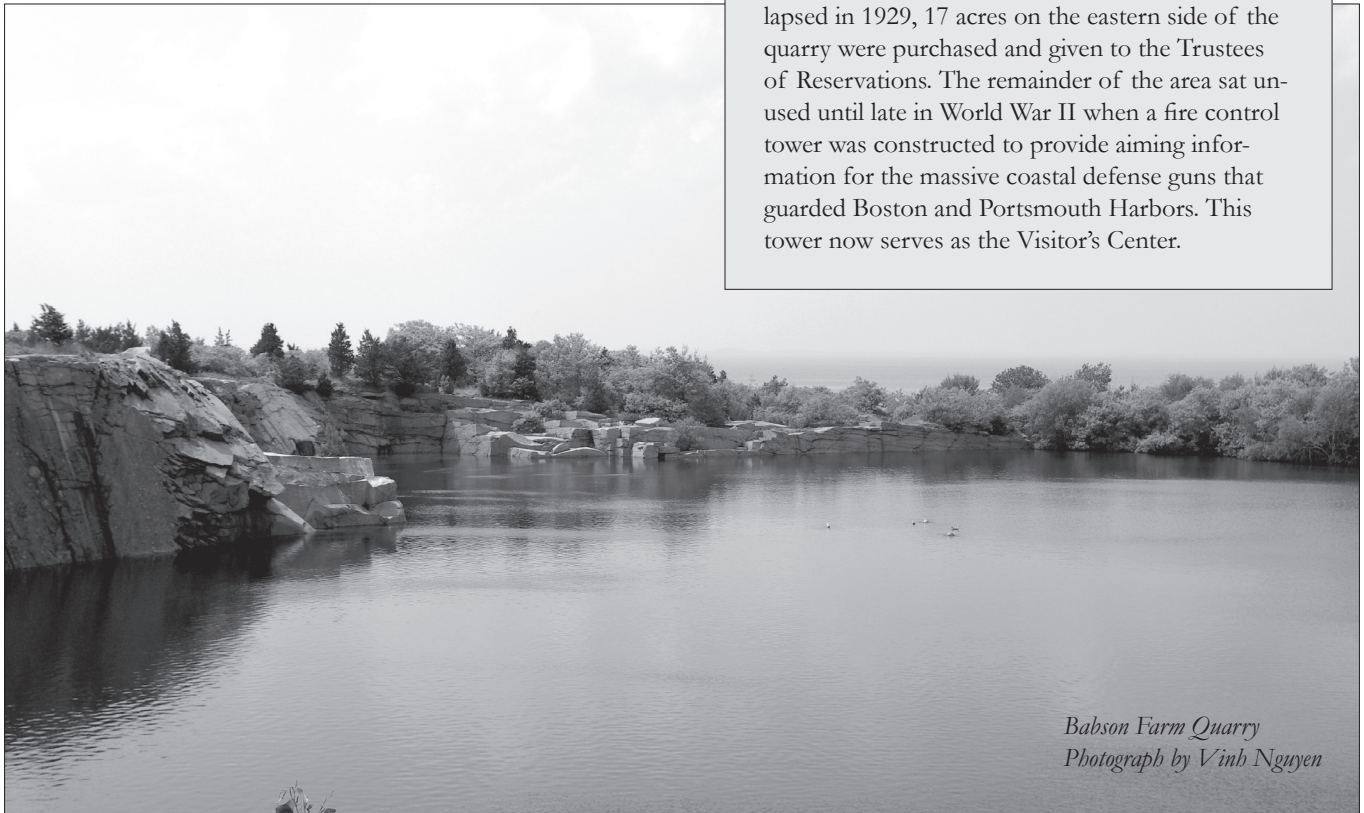
*Courtesy of The Friends of Halibut Point State Park*

Men working on top of Pigeon Hill, Rockport creating the Eagle for the Custom House Tower, Boston.

### **Halibut Point State Park, Rockport**

Halibut Point itself is made of sheets of 440 million year-old granite that now descend from rocky headland to the tidal pools below. As a result of the shallow soil, constant exposure to onshore winds, and a history of frequent fires, the vegetation includes few trees. Catbriar, bayberry, blueberry, arrowwood, shadbush, and an assortment of wildflowers grow among the ledges. Each winter, many species of seabirds, including loons, grebes, ducks and an occasional puffin, feed in the rich offshore waters.

Beginning in the 1840s, granite was quarried from this area, first on a small scale and primarily along the coast, and then on a much larger scale when the Rockport Granite Company acquired the Babson Farm quarry and expanded its operation. Shortly after the Cape Ann granite industry collapsed in 1929, 17 acres on the eastern side of the quarry were purchased and given to the Trustees of Reservations. The remainder of the area sat unused until late in World War II when a fire control tower was constructed to provide aiming information for the massive coastal defense guns that guarded Boston and Portsmouth Harbors. This tower now serves as the Visitor's Center.



*Babson Farm Quarry  
Photograph by Vinh Nguyen*

## Statement of Net Assets

Fiduciary Funds

June 30, 2007

(Amounts in thousands)

|   | Pension<br>Trust Funds | External<br>Investment<br>Trust Funds | Private<br>Purpose<br>Funds | Agency<br>Funds  | Total                |
|---|------------------------|---------------------------------------|-----------------------------|------------------|----------------------|
| <b>ASSETS</b>   |                        |                                       |                             |                  |                      |
| Cash and short-term investments.....                            | \$ -                   | \$ -                                  | \$ 834                      | \$ 444,103       | \$ 444,937           |
| Assets held in trust for pension benefits:                      |                        |                                       |                             |                  |                      |
| Cash and short-term investments.....                            | 29,108                 | 1,679,099                             | -                           | -                | 1,708,207            |
| Investments at fair value.....                                  | 46,329,558             | 3,490,921                             | -                           | -                | 49,820,479           |
| Assets held in trust for pool participants:                     |                        |                                       |                             |                  |                      |
| Cash and short-term investments.....                            | -                      | 3,194,551                             | -                           | -                | 3,194,551            |
| Investments, restricted investments and annuity contracts.....  | -                      | -                                     | -                           | 1,411,814        | 1,411,814            |
| Assets held in trust.....                                       | -                      | -                                     | -                           | 921,404          | 921,404              |
| Receivables, net of allowance for uncollectibles:               |                        |                                       |                             |                  |                      |
| Taxes.....  | -                      | -                                     | -                           | 930              | 930                  |
| Other receivables.....  | 76,880                 | 1,401,673                             | -                           | 97,740           | 1,576,293            |
| <b>Total assets.....</b>  | <b>46,435,546</b>      | <b>9,766,244</b>                      | <b>834</b>                  | <b>2,875,991</b> | <b>59,078,615</b>    |
| <b>LIABILITIES</b>  |                        |                                       |                             |                  |                      |
| Accounts payable.....   | 3,271                  | 2,617,500                             | -                           | 77,082           | 2,697,853            |
| Accrued payroll.....  | -                      | 284                                   | -                           | -                | 284                  |
| Due to cities and towns.....                                    | -                      | -                                     | -                           | 51,565           | 51,565               |
| Lottery prizes payable.....                                     | -                      | -                                     | -                           | 1,411,814        | 1,411,814            |
| Agency liabilities.....   | -                      | -                                     | -                           | 1,335,530        | 1,335,530            |
| <b>Total liabilities.....</b>                                   | <b>3,271</b>           | <b>2,617,784</b>                      | <b>-</b>                    | <b>2,875,991</b> | <b>5,497,046</b>     |
| <b>NET ASSETS</b>   |                        |                                       |                             |                  |                      |
| Restricted for employees' pension benefits.....                 | 46,432,275             | -                                     | -                           | -                | 46,432,275           |
| Restricted for external investment trust fund participants..... | -                      | 7,148,460                             | -                           | -                | 7,148,460            |
| Restricted for private purposes.....                            | -                      | -                                     | 834                         | -                | 834                  |
| <b>Total net assets.....</b>                                    | <b>\$ 46,432,275</b>   | <b>\$ 7,148,460</b>                   | <b>\$ 834</b>               | <b>\$ -</b>      | <b>\$ 53,581,569</b> |

The notes to the financial statements are an integral part of this statement.

# Statement of Changes in Net Assets

## Fiduciary Funds

Fiscal Year Ended June 30, 2007

(Amounts in thousands)

|   | Pension<br>Trust<br>Funds | External<br>Investment<br>Trust Funds | Private<br>Purpose<br>Funds | Total                |
|---|---------------------------|---------------------------------------|-----------------------------|----------------------|
| <b>ADDITIONS</b>                                  |                           |                                       |                             |                      |
| Contribution:                                     |                           |                                       |                             |                      |
| Employer contributions.....                       | \$ 1,335,747              | \$ -                                  | \$ -                        | \$ 1,335,747         |
| Employee contributions.....                       | 531,027                   | -                                     | -                           | 531,027              |
| Proceeds from sale of units.....                  | -                         | 11,882,227                            | -                           | 11,882,227           |
| Units issued - reinvestment of distributions..... | -                         | 108,492                               | -                           | 108,492              |
| <b>Total contributions.....</b>                   | <b>1,866,774</b>          | <b>11,990,719</b>                     | <b>-</b>                    | <b>13,857,493</b>    |
| Net investment income :                           |                           |                                       |                             |                      |
| Net appreciation in fair value .....              | 7,883,547                 | 345,235                               | -                           | 8,228,782            |
| Interest.....                                     | -                         | 155,591                               | -                           | 155,591              |
| <b>Total investment income.....</b>               | <b>7,883,547</b>          | <b>500,826</b>                        | <b>-</b>                    | <b>8,384,373</b>     |
| Less: management fees.....                        | -                         | 2,633                                 | -                           | 2,633                |
| <b>Net investment income .....</b>                | <b>7,883,547</b>          | <b>498,193</b>                        | <b>-</b>                    | <b>8,381,740</b>     |
| <b>Total additions.....</b>                       | <b>9,750,321</b>          | <b>12,488,912</b>                     | <b>-</b>                    | <b>22,239,233</b>    |
| <b>DEDUCTIONS</b>                                 |                           |                                       |                             |                      |
| Administration.....                               | 22,364                    | -                                     | -                           | 22,364               |
| Retirement benefits and refunds.....              | 2,952,686                 | 36,250                                | -                           | 2,988,936            |
| Cost of units redeemed.....                       | -                         | 9,621,173                             | -                           | 9,621,173            |
| Distribution to unit holders.....                 | -                         | 143,268                               | -                           | 143,268              |
| <b>Total deductions.....</b>                      | <b>2,975,050</b>          | <b>9,800,691</b>                      | <b>-</b>                    | <b>12,775,741</b>    |
| <b>Net increase .....</b>                         | <b>6,775,271</b>          | <b>2,688,221</b>                      | <b>-</b>                    | <b>9,463,492</b>     |
| Net assets - beginning (re-stated).....           | 39,657,004                | 4,460,239                             | 834                         | 44,118,077           |
| <b>Net assets - ending .....</b>                  | <b>\$ 46,432,275</b>      | <b>\$ 7,148,460</b>                   | <b>\$ 834</b>               | <b>\$ 53,581,569</b> |

The notes to the financial statements are an integral part of this statement.



Woods Hole Oceanographic Institute (WHOI) is the world's largest private, non-profit ocean research, engineering and education organization. WHOI is dedicated to research and higher education at the frontiers of ocean science and is supported by a mix of grants from federal agencies, private contributions, and endowment income.

The right whale is the most endangered great whale, with fewer than 300 in the North Atlantic. Despite federal protection, these whales have had no recovery in the last 60 years. Human activity—particularly ship collisions and entanglement in commercial fishing gear—accounts for approximately 40% of North Atlantic right whale deaths and, by degrading food supplies, might play a role in the right whale's poor reproduction rates. WHOI scientists, in collaboration with scientific colleagues throughout the region, industry representatives, and policy makers, are working to improve the survival rates of the right whale.

A North Atlantic right whale dives in search of food near Grand Manan Island in the Bay of Fundy, Canada. (Photo by Michael Moore, Woods Hole Oceanographic Institution)



*A humpback whale (Megaptera novaeangliae) breached while WHOI researchers were working to tag whales near Stellwagen Bank. No one knows for sure why whales breach the water surface; some researchers believe it is a form of communication among whales. (Photo by Melissa Patrician, Woods Hole Oceanographic Institution)*

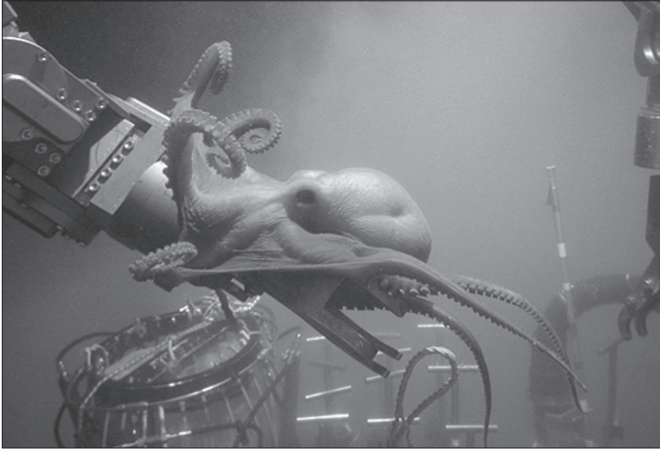


*A humpback whale (Megaptera novaeangliae) takes a gulp of water and fish, while tiny sandlances jump out of its mouth. The sandlance, commonly known as a "sand eel," is a stick-like fish that is prime target for hungry humpbacks who come to Stellwagen Bank (off Massachusetts) in the summer. Researchers have been studying the many strands and layers of the food web on the Bank to try to understand why it is such a productive feeding ground. (Photo by Melissa Patrician, Woods Hole Oceanographic Institution)*

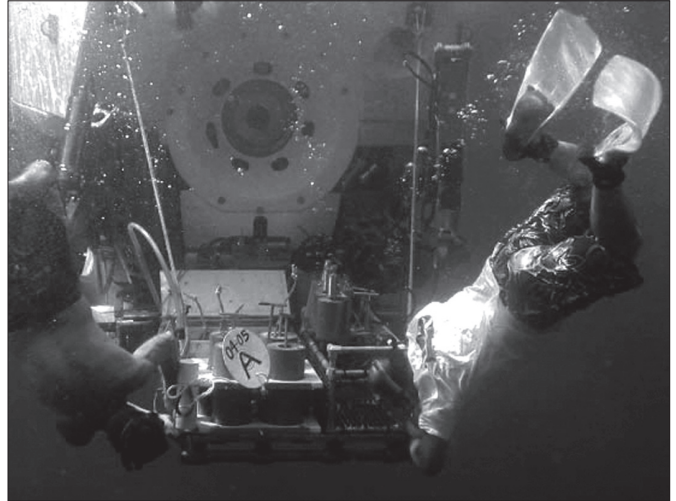


*The fluke of a humpback whale (Megaptera novaeangliae) creates its own waterfall. Researchers get up close and personal with whales while tagging them with harmless transmitters for studies of the food chain of Stellwagen Bank, from tiny plankton to bus-sized whales. (Photo by Melissa Patrician, Woods Hole Oceanographic Institution)*

# *Discretely Presented Component Unit Financial Statements*



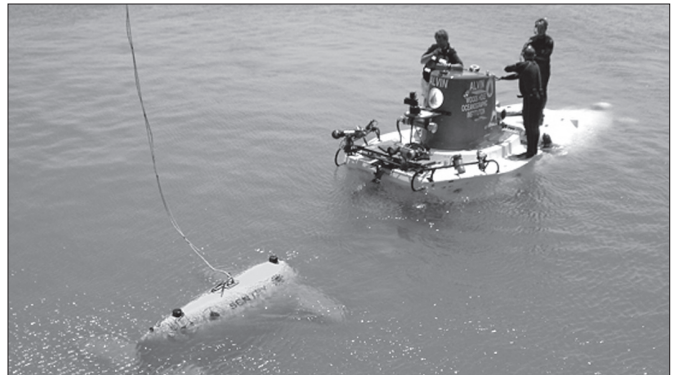
"Most octopuses will let you get close, maybe even touch them, but normally they'll try to run once the manipulator gets close," said Alvin pilot Bruce Strickrott, of his encounter with a deep-sea octopus 2,300 meters down (about 7,500 feet) in the Gulf of Mexico. This female was docile and, instead of swimming away, grabbed the submersible's robotic manipulator arm, used for picking up samples of seafloor rocks and organisms.



Carl Wood (left), R/V Atlantis steward, and Ken Feldman, a shipboard technician, are also certified swimmers who help launch and recover the WHOI-operated deep-diving submersible Alvin. In the famed submersible's 41-year history, only 35 people—with an underwater brand of the "right stuff"—have become Alvin pilots. (Photo by Mark Spear, Woods Hole Oceanographic Institution)



After five months in overhaul in a nearby facility, the submersible Alvin was lifted April 12, 2006 by crane onto support vessel R/V Atlantis at the WHOI dock. (Photo by Terry Rioux, Woods Hole Oceanographic Institution)



The new Sentry autonomous underwater vehicle meets the submersible Alvin during a testing expedition off Bermuda in April 2006. Sentry is a robotic underwater vehicle used for exploring the deep ocean; it will often be used to complement Alvin by surveying large swaths of ocean floor to determine the best spots for close-up exploration. Sentry is slated to join the National Deep Submergence Facility in 2008. (Photo by Chris German, Woods Hole Oceanographic Institution)



# Statement of Net Assets

Component Units

June 30, 2007

(Amounts in thousands)

|   | Massachusetts<br>Bay<br>Transportation<br>Authority | Massachusetts<br>Turnpike<br>Authority | Massachusetts<br>Water<br>Pollution<br>Abatement<br>Trust | Nonmajor<br>Component<br>Units | Reclassifications | Total               |
|---|---|--|---|--------------------------------|-------------------|---------------------|
| <b>ASSETS</b>   |   |  |   |                                |                   |                     |
| Current assets:   |   |  |   |                                |                   |                     |
| Cash and cash equivalents.....                            | \$ 119,338  | \$ 2,598                               | \$ -  | \$ 105,808                     | \$ -              | \$ 227,744          |
| Short-term investments.....                               | 60,519  | -                                      | 275,000   | 656,891                        | -                 | 992,410             |
| Receivables, net of allowance for uncollectibles:         |   |  |   |                                |                   |                     |
| Federal grants and reimbursement receivable.....          | 12,252  | -                                      | 14,898  | 30,179                         | -                 | 57,329              |
| Loans.....  | -   | -                                      | 174,621   | 40,400                         | -                 | 215,021             |
| Other receivables.....                                    | 20,668  | 25,866                                 | 89,369  | 27,660                         | -                 | 163,563             |
| Due from cities and towns.....                            | -   | -                                      | -   | 29,566                         | -                 | 29,566              |
| Due from primary government.....                          | 105,392   | 1,929                                  | 7,304   | 94,947                         | -                 | 209,572             |
| Inventory.....  | 55,445  | -                                      | -   | 827                            | -                 | 56,272              |
| Other current assets.....                                 | 90,663  | 2,998                                  | -   | 12,383                         | -                 | 106,044             |
| <b>Total current assets.....</b>                          | <b>464,277</b>                                      | <b>33,391</b>                          | <b>561,192</b>  | <b>998,661</b>                 | <b>-</b>          | <b>2,057,521</b>    |
| Noncurrent assets:  |   |  |   |                                |                   |                     |
| Cash and cash equivalents - restricted.....               | -   | 64,620                                 | -   | 23,656                         | -                 | 88,276              |
| Long - term investments.....                              | -   | 177,271                                | 1,545,978   | 84,382                         | -                 | 1,807,631           |
| Restricted investments and annuity contracts.....         | 698,357   | 361,332                                | -   | 27,272                         | -                 | 1,086,961           |
| Accounts receivables, net.....                            | -   | 3,281                                  | -   | 9,068                          | -                 | 12,349              |
| Loans receivables, net.....                               | -   | -                                      | 2,869,044   | 329,089                        | -                 | 3,198,133           |
| Due from primary government.....                          | -   | -                                      | -   | 300,941                        | (297,587)         | 3,354               |
| Non-depreciable capital assets.....                       | 1,196,279   | 468,823                                | -   | 85,681                         | -                 | 1,750,783           |
| Depreciable capital assets, net.....                      | 6,711,135   | 2,082,150                              | -   | 1,229,724                      | -                 | 10,023,009          |
| Other noncurrent assets.....                              | 450,861   | 10,174                                 | 6,508   | 39,200                         | 297,587           | 804,330             |
| <b>Total noncurrent assets.....</b>                       | <b>9,056,632</b>                                    | <b>3,167,651</b>                       | <b>4,421,530</b>  | <b>2,129,013</b>               | <b>-</b>          | <b>18,774,826</b>   |
| <b>Total assets.....</b>                                  | <b>9,520,909</b>                                    | <b>3,201,042</b>                       | <b>4,982,722</b>  | <b>3,127,674</b>               | <b>-</b>          | <b>20,832,347</b>   |
| <b>LIABILITIES</b>  |   |  |   |                                |                   |                     |
| Current liabilities:                                      |   |  |   |                                |                   |                     |
| Accounts payable and other liabilities.....               | 191,113   | 40,065                                 | 21,105  | 119,840                        | -                 | 372,123             |
| Accrued payroll.....                                      | 8,636   | 2,556                                  | -   | 511                            | -                 | 11,703              |
| Compensated absences.....                                 | 16,568  | 3,881                                  | -   | 915                            | -                 | 21,364              |
| Accrued interest payable.....                             | 111,792   | 58,545                                 | 54,620  | 6,072                          | -                 | 231,029             |
| Due to primary government.....                            | -   | -                                      | -   | 7,860                          | -                 | 7,860               |
| Deferred inflow of resources.....                         | -   | -                                      | -   | 26,832                         | -                 | 26,832              |
| Capital leases.....                                       | 87,346  | -                                      | -   | 3                              | -                 | 87,349              |
| Bonds, notes payable and other obligations - current..... | 137,215   | 20,555                                 | 139,393   | 151,314                        | -                 | 448,477             |
| <b>Total current liabilities.....</b>                     | <b>552,670</b>                                      | <b>125,602</b>                         | <b>215,118</b>  | <b>313,347</b>                 | <b>-</b>          | <b>1,206,737</b>    |
| Noncurrent liabilities:                                   |   |  |   |                                |                   |                     |
| Compensated absences.....                                 | -   | 7,793                                  | -   | 455                            | -                 | 8,248               |
| Accrued interest payable.....                             | -   | 66,880                                 | 2,312   | -                              | -                 | 69,192              |
| Deferred inflow of resources.....                         | 31,119  | 43,671                                 | -   | 40,924                         | -                 | 115,714             |
| Capital leases.....                                       | 655,654   | -                                      | -   | -                              | -                 | 655,654             |
| Bonds, notes payable and other obligations.....           | 5,006,912   | 2,324,055                              | 2,953,762   | 855,319                        | -                 | 11,140,048          |
| Other noncurrent liabilities.....                         | 83,690  | 60,158                                 | 181,782   | 25,384                         | -                 | 351,014             |
| <b>Total noncurrent liabilities.....</b>                  | <b>5,777,375</b>                                    | <b>2,502,557</b>                       | <b>3,137,856</b>  | <b>922,082</b>                 | <b>-</b>          | <b>12,339,870</b>   |
| <b>Total liabilities.....</b>                             | <b>6,330,045</b>                                    | <b>2,628,159</b>                       | <b>3,352,974</b>  | <b>1,235,429</b>               | <b>-</b>          | <b>13,546,607</b>   |
| <b>NET ASSETS</b>   |   |  |   |                                |                   |                     |
| Invested in capital assets, net of related debt.....      | 3,230,432   | 495,934                                | -   | 1,132,618                      | -                 | 4,858,984           |
| Restricted for:   |   |  |   |                                |                   |                     |
| Capital projects.....                                     | -   | -                                      | -   | 940                            | -                 | 940                 |
| Other purposes.....                                       | 30,395  | 70,800                                 | 1,453,152   | 482,704                        | -                 | 2,037,051           |
| Unrestricted.....   | (69,963)  | 6,149                                  | 176,596   | 275,983                        | -                 | 388,765             |
| <b>Total net assets.....</b>                              | <b>\$ 3,190,864</b>                                 | <b>\$ 572,883</b>                      | <b>\$ 1,629,748</b>                                       | <b>\$ 1,892,245</b>            | <b>\$ -</b>       | <b>\$ 7,285,740</b> |

# Statement of Revenues, Expenses and Changes in Net Assets

## Component Units

Fiscal Year Ending June 30, 2007

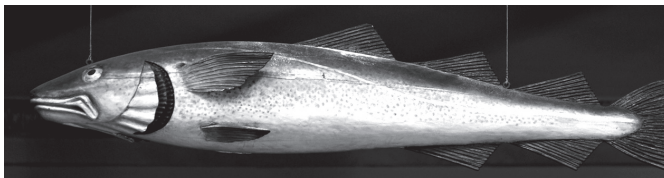
(Amounts in thousands)

|   | Massachusetts<br>Bay<br>Transportation<br>Authority | Massachusetts<br>Turnpike<br>Authority | Massachusetts<br>Water<br>Pollution<br>Abatement<br>Trust | Nonmajor<br>Component<br>Units | Reclassifications | Total               |
|---|---|--|---|--------------------------------|-------------------|---------------------|
| <b>Operating revenues:</b>  |   |  |   |                                |                   |                     |
| Charges for services.....   | \$ 386,488  | \$ 273,744                             | \$ 5,301  | \$ 372,189                     | \$ -              | \$ 1,037,722        |
| Other.....  | 45,134  | 31,220                                 | -   | 154,506                        | -                 | 230,860             |
| <b>Total operating revenues.....</b>                                      | <b>431,622</b>                                      | <b>304,964</b>                         | <b>5,301</b>  | <b>526,695</b>                 | <b>-</b>          | <b>1,268,582</b>    |
| <b>Operating expenses:</b>  |   |  |   |                                |                   |                     |
| Cost of services .....  | 538,382   | 179,839                                | 16,602  | 481,670                        | 514,484           | 1,730,977           |
| Administration costs.....   | 457,473   | 23,158                                 | 8,397   | 108,061                        | -                 | 597,089             |
| Depreciation.....   | 317,032   | 75,964                                 | -   | 73,749                         | -                 | 466,745             |
| <b>Total operating expenses.....</b>                                      | <b>1,312,887</b>                                    | <b>278,961</b>                         | <b>24,999</b>   | <b>663,480</b>                 | <b>514,484</b>    | <b>2,794,811</b>    |
| <b>Operating income (loss).....</b>                                       | <b>(881,265)</b>                                    | <b>26,003</b>                          | <b>(19,698)</b>   | <b>(136,785)</b>               | <b>(514,484)</b>  | <b>(1,526,229)</b>  |
| <b>Nonoperating revenues (expenses):</b>                                  |   |  |   |                                |                   |                     |
| Operating grants.....   | 873,391   | 21,537                                 | 7,853   | 148,181                        | -                 | 1,050,962           |
| Interest income.....  | 33,718  | 30,994                                 | 179,345   | 39,747                         | -                 | 283,804             |
| Interest expense.....   | (221,110)   | (128,449)                              | (129,528)   | (35,397)                       | 514,484           | -                   |
| Other nonoperating revenue (expense).....                                 | 24,416  | -                                      | -   | (1,476)                        | -                 | 22,940              |
| <b>Nonoperating revenues (expenses), net.....</b>                         | <b>710,415</b>                                      | <b>(75,918)</b>                        | <b>57,670</b>   | <b>151,055</b>                 | <b>514,484</b>    | <b>1,357,706</b>    |
| <b>Income (loss) before contributions and<br/>operating transfer.....</b> | <b>(170,850)</b>                                    | <b>(49,915)</b>                        | <b>37,972</b>   | <b>14,270</b>                  | <b>-</b>          | <b>(168,523)</b>    |
| Capital contributions.....  | 186,254   | -                                      | -   | 64,596                         | -                 | 250,850             |
| Gain / (Loss) on disposal of capital assets.....                          | -   | -                                      | 58,873  | (660)                          | -                 | 58,213              |
| <b>Change in net assets.....</b>  | <b>15,404</b>                                       | <b>(49,915)</b>                        | <b>96,845</b>   | <b>78,206</b>                  | <b>-</b>          | <b>140,540</b>      |
| Net assets - beginning (re-stated).....                                   | 3,175,460   | 622,798                                | 1,532,903   | 1,814,039                      | -                 | 7,145,200           |
| <b>Net assets - ending .....</b>  | <b>\$ 3,190,864</b>                                 | <b>\$ 572,883</b>                      | <b>\$ 1,629,748</b>                                       | <b>\$ 1,892,245</b>            | <b>\$ -</b>       | <b>\$ 7,285,740</b> |



*Photograph by Wing Chan  
and Jim Guan-Zong-Zhou*

The Cod (*Gadus morrhua*) is a soft-finned fish, usually 10-20 lbs. General coloring is olive grey with lateral lines paler than rest of body tint. Indians and Pilgrims used them as common food and fertilizer. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature. For over 200 years, the emblem of the cod has remained a symbol of the Commonwealth's economic beginnings, as the fishing industry provided the Puritans with food, fertilizer, and revenue for trade.



*Courtesy of Massachusetts  
Department of Fish and Game*



The Gloucester Schooner Festival celebrates the major contribution of the classic fishing schooner to the history of Gloucester. The events feature the last remaining of these great old vessels and their replicas, as they compete in the Mayor's Race for the Esperanto Cup, a trophy from the



first International Fishermen's Races sailed in 1920. For two days the city's harbor, the oldest fishing port on the Atlantic Coast, is the backdrop for a unique mix of old and new as modern-day trawlers share their home port with traditional vessels from the age of sail.



*All Photographs by Wing Chan  
and Jim Guan-Zong-Zhou*



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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America, (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

### A. Reporting Entity

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 56 independent authorities and agencies. Below the level of state government are 351 cities and towns exercising the functions of local governments. The cities and towns of the Commonwealth are also organized into 14 counties, but 7 of those county governments have been abolished in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 34 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

#### *Component Units and Details of Departments and Entities that are separately audited*

*Blended Component Units* – Blended component units are entities that are legally separate from the Commonwealth but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

- **The Massachusetts School Building Authority (MSBA)** is charged with administering the Commonwealth's school construction and renovation program. The MSBA's sole revenues are from dedicated sales taxes from the Commonwealth. The MSBA's bonded debt is secured by these sales tax revenues. Any deficiency in the sales tax revenue is born by the Commonwealth up to a minimum floor that is adjusted annually by Commonwealth statute until FY11. Expenditures by the MSBA are made on behalf of the Commonwealth as a successor to a long-standing Commonwealth program of school construction. The MSBA's operations and results thereon are blended with the Commonwealth and as such are reported as a major governmental fund.

- **The Pension Reserves Investment Trust Fund (PRIT)** is the investment portfolio for the pension assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions of PRIT's net assets totaling approximately \$3.9 billion relate to holdings on behalf of cities and towns that participate in the Pool and are reported as an external investment trust within the fiduciary fund type.
- **The Massachusetts Municipal Depository Trust (MMDT)** is an investment pool of the Commonwealth and its political subdivisions. The various local governments and other political subdivisions share of net assets is approximately \$3.2 billion at June 30, 2007, and is reported as an external investment trust within the fiduciary fund type.

**The following entities are audited separately from the Commonwealth but are not legally separate from the Commonwealth:**

- **The Massachusetts State Lottery Commission**, a division of the Office of the State Treasurer and Receiver – General, operates the Commonwealth's lottery. The net assets of the Commission and results thereon are presented as a major governmental fund.
- **The Health Care Security Trust Account (HST)** is the long - term investment account of the Health Care Security Trust, a nonmajor governmental fund. The HST is the recipient of tobacco settlement remittances to the Commonwealth. The HST is managed by a board of trustees, which supervises the investment and reinvestment of monies received into the HST. The HST utilizes certain resources and staff of PRIM. Certain Medicaid related revenues are also managed by the HST before expenditure.
- **The Commonwealth of Massachusetts Owner Controlled Worker's Compensation and General Liability Insurance Program (OCIP)** provides worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery / Tunnel Project (CA/T). The OCIP is managed by the Massachusetts Highway Department. The net assets of the program and results of operations are presented as part of the Commonwealth's other governmental fund activity.

**The institutions of higher education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets that are presented as part of the Commonwealth's business – type activities. These systems include:**

- **The University of Massachusetts System** including the University of Massachusetts Building Authority, and the Worcester City Campus Corporation. The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc. The University System also includes discretely presented component units, the University of Massachusetts Dartmouth Foundation, Inc and the University of Massachusetts Foundation, Inc.

- **The State and Community College System** including the 9 state and 15 community colleges located throughout the Commonwealth and the Massachusetts State College Building Authority (a blended component unit of the state college system). The following are the community colleges:
  - Berkshire Community College
  - Bunker Hill Community College
  - Bristol Community College
  - Cape Cod Community College
  - Greenfield Community College
  - Holyoke Community College
  - Massasoit Community College
  - Massachusetts Bay Community College
  - Middlesex Community College
  - Mount Wachusett Community College
  - Northern Essex Community College
  - North Shore Community College
  - Quinsigamond Community College
  - Roxbury Community College
  - Springfield Technical Community College

The following are the state colleges:

- Bridgewater State College
- Fitchburg State College
- Framingham State College
- Massachusetts College of Art
- Massachusetts Maritime Academy
- Massachusetts College of Liberal Arts
- Salem State College
- Westfield State College
- Worcester State College

Pursuant to GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, in addition to the aforementioned University of Massachusetts System, component units are the following state and community college system foundations, all of which are legally separate, tax-exempt, separately audited, component units of the various colleges. These entities resources can only be used by or are for the benefit of the various colleges to which they serve. All are presented within the various college financial statements because of the nature and significance of these entities to those colleges. Complete financial statements may be obtained at their various offices.

Community college component units:

- Berkshire Community College Foundation
- Bristol Community College Foundation
- Bunker Hill Community College Foundation
- Cape Cod Community College Educational Foundation, Inc.
- Greenfield Community College Foundation, Inc.
- Holyoke Community College Foundation
- Massasoit Community College Foundation
- Massachusetts Bay Community College Foundation, Inc.
- Middlesex Community College Foundation, Inc.
- The Mount Wachusett Community College Foundation, Inc.



- The Northern Essex Community College Foundation, Inc.
- North Shore Community College Foundation
- The Quinsigamond Community College Foundation, Inc.
- The Roxbury Community College Foundation, Inc.
- Springfield Technical Community College Foundation

State college component units:

- Bridgewater State College Component Units:
  - The Bridgewater State College Foundation
  - The Bridgewater Alumni Association of Bridgewater State College
- Fitchburg State College Foundation, Inc.
- Framingham State College Foundation, Inc.
- Massachusetts College of Art Foundation, Inc.
- Massachusetts College of Liberal Arts Foundation, Inc.
- The Massachusetts Maritime Academy Foundation, Inc.
- Salem State College Component Units:
  - The Salem State College Foundation, Inc.
  - Salem State College Assistance Corporation
- Westfield State College Foundation, Inc.
- Worcester State Foundation

***Other Discretely Presented Component Units that are Separately Audited –***

Discrete component units are entities which are legally separate (often called Authorities) are financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of the following entities:

*Major component units:*

- [The Massachusetts Bay Transportation Authority \(MBTA\)](#) provides mass transit facilities within the Greater Boston metropolitan area, comprising 175 cities and towns.
- [The Massachusetts Turnpike Authority \(MTA\)](#) operates the Massachusetts Turnpike and the Metropolitan Highway System.
- [The Massachusetts Water Pollution Abatement Trust \(MWPAT\)](#) provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

*Minor component units*

- [Massachusetts Convention Center Authority \(MCCA\)](#)
- [Massachusetts Development Finance Agency \(MassDevelopment\)](#)
- **Massachusetts Technology Park Corporation (MTPC)**
- **Commonwealth Health Insurance Connector Authority**
- **Economic Development Entities (7 separate entities)** including:
  - Massachusetts Community Development Finance Corporation (MCDFC)
  - Commonwealth Corporation
  - Community Economic Development Assistance Corporation (CEDAC)

- Massachusetts Life Sciences Center
- Massachusetts Housing Partnership (MHP)
- Route 3 North Transportation Improvement Association (R3N)
- Commonwealth Zoological Corporation (Zoo)
- **Regional Transit Authorities (14 separate entities)** including:
  - Berkshire Regional Transit Authority
  - Brockton Area Transit Authority
  - Cape Ann Transit Authority
  - Cape Cod Regional Transit Authority
  - Franklin Regional Transit Authority
  - Greater Attleboro / Taunton Regional Authority
  - Greenfield Montague Transportation Area
  - Lowell Regional Transit Authority
  - Martha's Vineyard Transit Authority
  - Merrimack Valley Regional Transit Authority
  - Montachusett Regional Transit Authority
  - Nantucket Regional Transit Authority
  - Pioneer Valley Regional Transit Authority (not audited)
  - Southeastern Regional Transit Authority
  - Worcester Regional Transit Authority

The Massachusetts International Trade Council, Inc (MITC) was judged to be no longer a component unit effective July 1, 2005. On April 4, 2007, the Franklin Regional Transit Authority finished acquiring the assets and most of the operations of the Greenfield Montague Transportation Area. The transportation services (fixed route, demand response, ADA and third-party paratransit services) were assumed by FRTA and GMTA's employees were hired by the operator of FRTA's fixed route and other services. GMTA still exists as a legal entity. Its main source of income now is from lease income. Though they are not a part of FRTA's financials. However, there is a payable and receivable between FRTA and GMTA.

#### *Related Organizations*

The following are "related organizations" under GASB Statement No. 14, "*The Financial Reporting Entity*" as amended by Statement 39: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. The Commonwealth is responsible for appointing a voting majority of the members of each entity's board, but the Commonwealth's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

#### *Availability of Financial Statements*

The separately audited financial statements of the Commonwealth's component units and funds may be obtained by directly contacting the various entities. Contact the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for the contact information.

#### ***B. Government – Wide Financial Statements***

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. Governmental activities generally are financed through

taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

*Government – Wide Financial Statements*

The **Statement of Net Assets** presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net assets** consist of net assets, which do not meet the definition of the two preceding categories.

Restricted net assets are used prior to unrestricted net assets.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business – type operations.

**C. Fund Financial Statements**

The fund financial statements present a balance sheet and a statement of revenues, expenditures and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column.

**D. Measurement Focus and Basis of Accounting**

The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

**Governmental Activities – Government – Wide financial statements** - are reported using the economic resources management focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

**Governmental Funds – Fund financial statements** - account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services are recognized in the year for which they are received or subject to accrual, grants expended or services provided. The measurement period for accrual for taxes generally is one year for income, corporate and other taxes and within thirty days for sales and use taxes, for taxes earned. For federal and other reimbursements, the measurement period for accrual is generally sixty days if the related expenditures being reimbursed occurred previous to year end. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources. Amounts incurred but not reported for Medicaid are reported to the extent that services are rendered before June 30th and are normally expected to be partially reimbursed by federal reimbursements.

**Business – Type Activities – Government – Wide financial statements** account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges. There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for – profit business. The Commonwealth's Institutions of Higher Education's operations are reported as systems within the proprietary funds. Proprietary fund types are described in more detail below.

**Proprietary and Fiduciary Funds – Fund financial statements** are presented on the same basis of accounting as the business-type activities in the government – wide financial statements.

The Commonwealth reports the following fund types:

**Governmental Fund Types:**

**General Fund**, a governmental fund, is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

**Special Revenue Funds** account for specific revenue sources that have been aggregated according to Commonwealth Finance Law to support specific governmental activities.

**Debt Service Fund** accounts for the accumulation of resources for and the payment of debt.

**Capital Projects Funds** account for the acquisition or construction of major Commonwealth capital facilities financed primarily from bonds and federal reimbursements.

***Permanent Funds*** account for resources that are legally restricted to the extent that earnings, not principal may be used for the Commonwealth's programs. These are different than private – purpose funds below as those benefit individuals, private organizations and other governments directly. The only permanent fund the Commonwealth has is the Massachusetts School Fund, established in 1834 as a fund “for the aid and encouragement of common schools.”

The fund was originally capitalized from the proceeds of the 1820's sale of the public lands upon which the State of Maine was created.

**Proprietary Fund Types:**

***Business - Type Activities*** account for programs financed in whole or in part by fees charged to external parties for goods and services. Major Proprietary Funds are the Unemployment Compensation Fund, the University of Massachusetts, State Colleges and Community Colleges.

**Fiduciary Fund Types:**

***Pension Trust Funds*** report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's pension plans.

***External Investment Trust Funds*** account for the portion of pooled cash and pension assets held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

***Private Purpose Funds*** account for various gifts and bequests held by the Commonwealth of which only the income is expendable for purpose specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals.

***Agency Funds*** account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Within the governmental fund types, the Commonwealth has established the following major funds, in addition to the General Fund:

***Highway Fund***, a governmental fund, accounts for user taxes including the gas taxes and fees to finance highway maintenance and safety services.

***Lottery Funds***, governmental funds, account for the operations of the State and Arts Lotteries, which primarily finance payments for local aid.

***The Massachusetts School Building Authority*** is presented as a governmental fund. This comprises the activity of the blended component unit, Massachusetts School Building Authority, accounting for grants to cities, towns and regional school districts for school construction and renovation projects.

The proprietary funds include the following:

***Unemployment Compensation Fund*** reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust



Fund, from which funds are drawn for the payment of benefits to the unemployed.

***College and University Information***, is presented here, aggregated by the University's activity, the State Colleges activity and the Community College's activity.

#### *Reporting Standards*

As allowed by GASB statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Commonwealth's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

#### *Fiscal Year Ends*

All funds and discretely presented component units are reported using fiscal years, which end on June 30, except for the Massachusetts Turnpike Authority which utilizes a December 31 year end.

#### *Program Revenue*

Program revenue is defined by the Commonwealth to be the revenue from fees and assessments collected by departments that are directly applicable to that department's operations.

#### *Operating and non-operating revenues and expenses*

Revenues and expenses of business - type activities and proprietary funds are classified as operating or nonoperating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

#### **E. *Cash and Short-Term Investments***

The Commonwealth follows the practice of pooling the cash and cash equivalents. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund and, when so directed by law, to certain other Governmental Funds.

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Fund and a Short Term Bond Fund. For a complete copy of MMDT's separately issued financial statements, please feel free to contact the Trust's investment adviser at 800-392-6095, or James McDonald, Assistant Treasurer, Cash Management Department, at 617-367-9333.

Statutes authorize investment in obligations of the U.S. Treasury, authorized bonds of all states, bankers acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase

agreements that any of these obligations secure. The Cash Fund investments are carried at cost, which approximates fair value.

The Pension Trust funds invest in the Pension Reserves Investment Trust (PRIT) Fund, an external investment pool managed by the Pension Reserves Investment Management (PRIM) Board. The State Employees' and Teachers' PERS are required to invest in the PRIT Fund and comprise approximately 43% and 49% of the net assets of the PRIT Fund. For a complete copy of PRIT's separately issued financial statements, contact the PRIM Board at 84 State Street, Boston, MA 02109.

The Commonwealth's investments, including those of the PRIT Fund, are comprised of investments in marketable securities; primarily domestic and international equities and fixed income securities as well as non-marketable securities; primarily real estate, venture capital and private equity limited partnerships, hedge fund of funds and other alternative investments. Marketable securities, including the Short Term Bond Fund component of MMDT, are reported at fair value based upon quoted market prices. Non-marketable securities are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Non-marketable securities comprise approximately 28% and 27% of the net assets/fund balance of the State Employees' PERS, Teachers' PERS and the Health Care Security Trust Fund (HST).

The investments of the PRIT are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. Security transactions are recorded on the trade date the securities are purchased or sold. The costs of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date.

MMDT's investments are carried at amortized cost, which approximates fair value. The primary government's and component unit's share are reported as short-term investments within their respective reporting categories.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value.

**F.      *Securities Lending  
Program***

The PRIT and the HST participate in securities lending programs. Under these programs, the Trusts receive a fee for allowing brokerage firms to borrow certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% to 105% of the fair value of the security borrowed. The collateral securities cannot be pledged or sold by the

PRIT and HST unless the lending agents default. The lending agents are required to indemnify PRIT and HST in the event that they fail to return the securities on loan (and if the collateral is inadequate to replace the securities on loan) or if the lending agents fail to perform their obligations as stipulated in the agreements. There were no losses resulting from default of the lending agents during the years ending June 30, 2007. At June 30, 2007, the fair value of the securities on loan from HST was approximately \$7,900,000 and the fair value of the associated collateral amounted to \$8,700,000 of which zero was cash. At June 30, 2007, the fair value of the securities on loan from PRIT was approximately \$1,323,000 and the fair value of the associated collateral amounted to \$1,386,000, of which \$450,000 was cash.

**G.      *Receivables***

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available, based upon collection experience. If revenue is not received by year – end, receivables are declared. Receivables are stated net of estimated allowances for uncollectible accounts. These are the only types of receivables that have allowances.

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as “Federal grants and reimbursements” or “Due from federal government” in the statement of net assets.

“Other Receivables” represent amounts due to Commonwealth including Lottery revenues and Higher Education receivables from students, amounts due to the University of Massachusetts from related organizations and other items.

Included in receivables for FY07 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement between five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 “*Tobacco Settlement Recognition and Financial Reporting Entity Issues*”, a receivable has been declared for \$145.0 million, representing 50% of the amounts estimated to be received in FY08, adjusted for historical trends and included as part of other nonmajor governmental fund activity.

**H.      *Due From Cities and Towns***

“Due from Cities and Towns” represents reimbursements due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

On July 9, 2004, the Governor signed Chapter 169 of the Acts of 2004, related to the financial ability of the City of Springfield, (the City). Section 2 of the Act provides for \$52,000,000 in zero interest loans to be drawn from time to time by a finance control board established by the Act. This activity is recorded in the Springfield Fiscal Recovery Trust Fund, a nonmajor governmental fund. The loans are to be paid back to the Commonwealth no later than June 30, 2012. During FY07, approximately \$25,700,000 in cash flow was issued to the City from the Trust Fund. The loan balance of \$52,000,000 is reflected as “Due from Cities and Towns.” No further revolving activity will continue after FY07. The Act provides for no forgiveness of the loans and failure to repay the full value of loans disbursed from the fund to the City shall result in an equally commensurate reduction in local aid payments made by the Commonwealth to the City beginning in FY13.

**I.      *Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements.

*Methods used to value capital assets*

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

*Capitalization Policies*

All land, non-depreciable land improvements and donated historical treasures or works of art are capitalized. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed \$50,000 (\$1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

*Depreciation and useful lives*

Applicable capital assets are depreciated using the straight-line method. Unless unallocable, depreciation expense is charged to the function of the capital asset being depreciated. Estimated useful lives are as follows:

| <i>Type of Asset</i>  | <b>Estimated<br/>Useful Life<br/>(in years)</b> |
|---|---|
| Buildings .....   | 40  |
| Infrastructure - roads, bridges and tunnels .....           | 40  |
| Infrastructure - beaches, boardwalks, bikeways, etc. ....   | 25  |
| Infrastructure - dams, water and sewer systems .....        | 50  |
| Furniture .....   | 10  |
| Library collections that are not historical treasures ..... | 15  |
| Equipment, office equipment and life safety equipment ..... | 10  |
| Computer hardware and software .....                        | 3 to 7  |
| Vehicles .....  | 5   |

*Central Artery / Tunnel Project Depreciation*

In FY06 and continuing in FY07, certain Central Artery / Tunnel Project segments were opened to traffic, but not yet transferred as of June 30, 2007 to the MTA or Massport, as required by Massachusetts general law. The Commonwealth is reporting these assets as Infrastructure – Central Artery / Tunnel Project and Land – Central Artery / Tunnel Project and has commenced depreciation on these assets. Because amounts are also reported as “Due to Component Units – Central Artery / Tunnel Project” and pursuant to provisions of Massachusetts statutes, the amount claimed on depreciation expense on the Central Artery / Tunnel Project is also an adjustment of the Due to Component Units – Central Artery / Tunnel Project to report the payable at net book value. These activities have no effect on the Commonwealth’s statement of activities.

*Construction in Process*

Construction in process includes all associated cumulative costs of a constructed capital asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use. For the CA / T, construction in process is relieved upon agreement between the Massachusetts Highway Department, the MTA and / or the Massachusetts Port Authority, its engineers and respective boards. The chief engineer of the Highway Department, or their designees, jointly determine and certify to the MTA or the Massachusetts Port Authority that the respective authorities can safely open each such facility or segment

thereof to vehicular traffic or that such facility can safely be used for its intended purpose. As of June 30 2007, approximately \$6,476,025,000 of project costs has been transferred to the various authorities, including \$10,252,000 of costs transferred outside of the current agreements to the Massachusetts Port Authority and \$10,697,000 to the Boston Redevelopment Authority.

Capital assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

**J.      *Interfund/Intrafund  
Transactions***

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

**K.      *Statewide Cost  
Allocation Plan –  
Fringe Benefit Cost  
Recovery***

The Commonwealth has elected not to present its cost allocation and recovery separately on the statement of activities. Certain costs of nine “central service” agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefits from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees’ group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees’ group health insurance and worker’s compensation activity is accounted for in the governmental funds.

**L.      *School Construction  
Grants and Contract  
Assistance Payable***

The Commonwealth, through the MSBA, was reimbursing cities, towns and regional school districts for 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation. Under the former building assistance program, the Commonwealth is reimbursing municipalities and regional school districts for 728 previously approved projects noted by MSBA as prior grant projects. The Commonwealth’s share ranged from 50% to 90% of approved eligible construction and borrowing costs for each project. In addition, under the former program, 428 school projects were maintained on a waiting list for funding. The MSBA has assumed responsibility for these projects under its enabling statute. The MSBA records a liability for its share of total eligible project costs when the applicable eligibility requirements have been met. All of the 728 prior grant projects receiving an annual payment under the federal program have liabilities recorded by the MSBA, which are reduced over time through annual payments by the MSBA. The waiting list projects can either receive a lump sum or a progress payment. Lump sum payments are recognized as a liability once construction has started. Progress payments have liabilities recognized once a grantee requests reimbursement from the MSBA. The remaining wait list projects are reported as commitments by the MSBA. The MSBA activity is reported as a major fund on the Governmental Fund financial statements.



The Commonwealth recognizes contract assistance due to MWPAT as a long-term liability on the statement of net assets. This liability equates to portions or the whole of certain debt service of the MWPAT. In addition, a payable is declared to the MTA as a cash flow reimbursement for the operations and maintenance of the Central Artery / Tunnel Project.

**M.      *Compensated Absences***

Compensated absences are recorded as a long-term liability in the statement of net assets. For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2007 but paid after the fiscal year end are also reported in the funds.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

In the business - type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

**N.      *Lottery Revenue and Prizes***

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the agency fund and on the statement of net assets. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.

**O.      *Risk Financing***

The Commonwealth does not insure for employees workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employee's workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

**P.      *Net Assets***

The Commonwealth reports net assets as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation.*" Otherwise, these balances are considered unrestricted.

Net Assets have been restricted as follows:

"Restricted for Capital Projects" – identifies amounts of unspent proceeds of capital bond issuances that can only be used for capital projects under federal tax laws.

"Restricted for unemployment benefits" – identifies amounts solely for the payment of unemployment compensation under federal labor laws.

“Restricted for retirement of indebtedness” – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998. Escrows related to crossover refundings are also restricted. Because removal of monies from these restrictions will constitute a technical default to bondholders, the amounts are restricted.

“Restricted for central artery workers’ compensation and general liability” – identifies amounts held to pay future workers’ compensation and general liability claims through the Central Artery / Tunnel Project’s owner controlled insurance program. Various trust and insurance agreements require mutual consent of the Commonwealth and the companies involved to remove restrictions. Any program assets remaining after all losses and other obligations of the Central Artery / Tunnel Project are paid will revert to the Commonwealth.

“Restricted for other purposes” – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. In Pension Trust Fund and External Investment Trust Fund net assets have been restricted for employee’s pension benefits which identifies resources held in trust for the members and beneficiaries of the Commonwealth’s pension plans and for external investment trust fund participants which identifies the portion of pooled cash and pension assets held under custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

“Restricted for Nonexpendable purposes” – identifies amounts held as permanent investments for a specific purpose.

As of June 30, 2007, the government-wide statement of net assets reports the following as restricted net assets (amounts in thousands):

| Restricted for:  | Governmental<br>Activities | Business<br>Type<br>Activities | Government<br>Wide<br>Total |
|--|----------------------------|--------------------------------|-----------------------------|
| Unemployment benefits.....                                 | \$ -                       | \$ 1,614,419                   | \$ 1,614,419                |
| Retirement of indebtedness.....                            | 940,758                    | -                              | 940,758                     |
| Central artery workers’ compensation and general liability | 47,763                     | -                              | 47,763                      |
| Permanent trust.....                                       | 5,000                      | -                              | 5,000                       |
| Restricted for other purposes.....                         | -                          | 681,088                        | 681,088                     |
| Total restricted net assets.....                           | <u>\$ 993,521</u>          | <u>\$ 2,295,507</u>            | <u>\$ 3,289,028</u>         |

**Q.      *Reclassifications and  
Restatement***

Certain amounts in the separately issued Component Units financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth. These amounts are presented as reclassifications in the combining statements for said Component Units. Due to the provisions of GASB Statement No. 34 (“GASB 34”) “*Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments*”, major governmental and proprietary funds presented in a previous year may not be major fund presented in the current year. These changes were done because of internal changes in accounting policies.

During FY07, the Commonwealth judged that the Massachusetts International Trade Council (MITC) is no longer a component unit of the Commonwealth. In addition, the Pioneer Valley Transit Authority had a restatement of beginning net assets. The total beginning net assets of Component Units were adjusted by \$497,000 to account for these changes prospectively.

During FY07, the Commonwealth re-classed the Permanent Fund activity from the Agency Funds to the Other Governmental Fund. The re-classed amount changed the undesignated fund balances by \$5,000,000.

**R.      *Total Columns and  
Estimates***

Total and subtotal columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Commonwealth's financial statements for the year ended June 30, 2006 from which the summarized information was derived.

The preparation of the Comprehensive Annual Financial Report requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial report. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**S.      *Accounting  
Standards***

In FY08, the Commonwealth will be implementing Statement No. 45 "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" and the related GASB Technical Bulletin 2006-1 "*Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*". As of December 2007, though the Commonwealth has performed an actuarial valuation as discussed in footnote 9, the Commonwealth has not fully evaluated the financial impact of implementing this statement.

The Commonwealth will also be implementing Statement No. 48 "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*", Statement No. 49 "*Accounting and Financial Reporting for Pollution Remediation Obligations*" and Statement No. 50 "*Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*" in FY08 and FY09 respectively. As of the date of the opinion, the Commonwealth has not evaluated the financial impact of implementing these statements.

In FY09, the Commonwealth will be implementing Statement No. 52, "*Land and Other Real Estate Held as Investments by Endowments*." As this statement primarily affects the component unit foundations of the institutions of higher education that will report land and other real estate held as investments at fair value instead of historical cost, the Commonwealth has not fully evaluated the financial impact of implementing this statement.

In FY10, the Commonwealth will be implementing Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*." This Statement requires that intangible assets such as easements, water rights, timber rights, patents, trademarks and internally developed software should be capitalized,

based on certain criteria, if it is identifiable. Outlays associated with the development of such assets until certain trigger points are expensed and after those points are capitalized. The Commonwealth will then amortize these costs over their contractual or legal lives. Intangible assets with indefinite lives will not be amortized. As retroactive application of this standard is necessary, the Commonwealth will begin to establish amounts that should be capitalized and estimated lives for existing intangible assets during FY08 and FY09. Because of the complexity of this standard, the Commonwealth will not be able to fully evaluate the financial impact of Statement No. 51 until it is implemented.

## 2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS

### *Primary Government -*

The Commonwealth maintains cash in the MMDT Cash Fund that is available for use by all funds. Each fund type's net equity in the Cash Fund is displayed in the basic financial statements as "Cash and short-term investments."

Pooled cash and short-term investments include the following (amounts in thousands):

|                                      | Governmental<br>Activities | Business<br>Type<br>Activities | Government<br>Wide Total |
|--------------------------------------|----------------------------|--------------------------------|--------------------------|
| Cash and short-term investments..... | \$ 4,445,142               | \$ 482,321                     | \$ 4,927,463             |
| Cash with fiscal agent.....          | 1,102,987                  | -                              | 1,102,987                |
| Total.....                           | <u>\$ 5,548,129</u>        | <u>\$ 482,321</u>              | <u>\$ 6,030,450</u>      |

### *Lottery Annuity Contracts*

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver – General, purchases annuity contracts from insurance companies and United States treasury strips to fund the Commonwealth's liability for future installment prize obligations. These annuities and treasury strips represent an obligation of the insurance company and the custodial bank, respectively, to provide a fixed series of payments over a specified period. Only the annuity investments are subject to credit risk. For the annuity contracts, risk is controlled by purchasing these investments only from insurance companies with the top two rating issued by a national recognized ratings organization. However, due to the nature of these annuity contracts, the credit quality of the insurance company issuer is subject to change. At June 30, 2007, the Commonwealth held these investments with a face value of approximately \$2.0 billion at their value of \$1.4 billion. Nearly 71% of these amounts are held in United States treasury strips at a custodial bank. Only one insurance company has an amount of annuities over 5% of the overall portfolio (approximately \$77 million out of an annuity portfolio of approximately \$412 million at fair value).

As of June 30, 2007, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

|                                |                     |
|--------------------------------|---------------------|
| Cash and cash equivalents..... | \$ 769,116          |
| Restricted investments.....    | <u>1,608,224</u>    |
| Total.....                     | <u>\$ 2,377,340</u> |

#### *MSBA Deposits and Investments*

The MSBA is authorized to invest in obligations of the US Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and repurchase agreements. These investments are recorded at fair value. The MSBA has an investment policy that establishes the minimum credit quality for certain instruments, outlines investment procedures and updates for periodic reporting. The MSBA investment policy does not specifically limit the amount the MSBA may invest in any one issuer.

#### *Custodial Credit Risk – Pooled Cash*

Custodial credit risk is the risk that in the event of a bank failure, deposits and investments may not be returned to the Commonwealth. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. As of June 30, 2007, of the approximately \$64,402,000 in pooled cash, \$64,073,000 was exposed to this risk.

#### *Custodial Credit Risk – HST*

HST manages exposure to custodial credit risk by requiring all of its investment managers to hold investments in separate accounts with HST's custodian. As of June 30, 2007 approximately \$393,000 of the HST's approximately \$494,000 in cash was exposed to this risk.

#### *Custodial Credit Risk – OCIP*

In addition, the OCIP had approximately \$1,000 exposed to Custodial-Credit-Risk.

#### *Custodial Credit Risk – Business - Type Activities*

The Institutions of Higher Education and their blended component units have investment policies that may vary by Institution and blended component unit for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC as well as uninsured deposits. As of June 30, 2007, the bank balances of uninsured deposits total \$174.3 million.

#### *Custodial Credit Risk - MSBA*

The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance, as well as uninsured deposits. As of June 30, 2007, the bank balances of uninsured deposits total \$892.4 million.



*Interest Rate Risk – Non Pension Trust Funds*

Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. These investments include certain short – term cash equivalents, various long-term items and restricted assets by maturity in years. The Treasury minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining an effective duration of less than 90 days and holding all of the portfolio's total market value in securities with a maturity of six months or less.

The tables in this section provide information about the interest rate risk associated with the Commonwealth's investments, exclusive of its Pension Trust Funds but inclusive of the HST, which is also managed by the PRIM Board.

As of June 30, 2007 the MMDT Cash Fund is considered a cash equivalent by the Commonwealth as its weighted average maturity is less than 64 days.

Investments in the MMDT are classified as cash and short term investments above and include the Short Term Bond Fund (the Fund) authorized under General Laws Chapter 29, Section 38. Investments in the Fund are made in investment grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Fund by using duration. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as weights. General Laws Chapter 29, Section 49 enumerates the Commonwealth's policy of investments included in the MMDT cash fund and other escrows.

The Massachusetts General Laws authorize investments in the MMDT Cash Fund to include money market funds operated in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulations or in any other security that qualifies for inclusion in a fund operated in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulations as amended from time to time.

The HST manages exposure to fair value loss arising from movements in interest rates with its fixed income investment securities by having the PRIM Board establish duration guidelines. The guidelines with each individual manager require that the effective duration of the HST's domestic fixed investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index.

Assumptions about duration take into consideration factors indicative of investments highly sensitive to interest rate changes including callable options, prepayments and other factors. These factors are reflected in the effective duration numbers provided in the following table. HST compares the effective duration of a manager's portfolio to the Lehman Brothers Aggregate Index for domestic core fixed income securities and the Merrill Lynch High Yield Master II Index for domestic high yield fixed income securities.

The following table shows the debt investments by investment type, fair value and effective weighted duration rate at June 30 for HST:

| <b>Investment</b>                                    | <b>Fair value</b><br>(Amounts<br>in<br>thousands) | <b>Effective<br/>weighed<br/>duration rate</b><br>(Amounts<br>expressed<br>in years) |
|--|---|--|
| Asset Backed Securities.....                         | \$ 6,446  | 0.79   |
| Commercial Mortgage Backed Securities.....           | 6,012   | 4.22   |
| Commercial Paper.....                                | 1,714   | 0.14   |
| Corporate Bonds and Other Credits.....               | 37,516  | 3.97   |
| Municipal Bonds.....                                 | 421   | 6.43   |
| Non-U.S. Government Backed C.M.O.s.....              | 4,190   | 2  |
| Other Pooled Funds.....                              | 29,365  | NA   |
| Pooled Money Market Fund.....                        | 7,508   | 0.08   |
| U.S. Government Agencies.....                        | 1,700   | 1.16   |
| U.S. Government Mortgage Backed Securities.....      | 33,824  | 4.5  |
| U.S. Government Bonds.....                           | <u>8,821</u>                                      | <u>7.78</u>  |
| Total HST fixed income and short - term investments. | <u>\$ 137,517</u>                                 |  |

The Short Term Bond Fund assesses risk by using duration. Duration is managed to within 0.5 years of the duration of the benchmark, the Lehman Brothers® 1 to 5 year Government / Credit Index. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as the weights.

For the Short Term Bond Fund, the weighted average maturity is 14.7 years. Investments in the MMDT Short Term Bond Fund are as follows: (amounts in thousands):

| <b>Investment</b>                             | <b>Investment Maturities (In Years)</b> |                    |                   |                 |                     |
|---|---|--------------------|-------------------|-----------------|---------------------|
|   | <b>Fair<br/>Value</b>                   | <b>Less than 1</b> | <b>1 - 5</b>      | <b>6 - 10</b>   | <b>More than 10</b> |
| Asset Backed Securities.....                  | \$ 61,172                               | \$ -               | \$ 49,907         | \$ 5,035        | \$ 6,230            |
| Collateralized Mortgage Obligations.....      | 28,017                                  | -                  | -                 | 1,594           | 26,423              |
| Commercial Mortgage Securities.....           | 63,313                                  | -                  | 2,071             | -               | 61,242              |
| Nonconvertible Bonds.....                     | 102,884                                 | 5,188              | 96,167            | 1,529           | -                   |
| Repurchase Agreements.....                    | 1,447                                   | 1,447              | -                 | -               | -                   |
| US Government Agency Mortgage Securities..... | 65,984                                  | -                  | -                 | -               | 65,984              |
| US Government Agency Obligations.....         | <u>47,928</u>                           | <u>-</u>           | <u>47,928</u>     | <u>-</u>        | <u>-</u>            |
| <b>Total Investments.....</b>                 | <b>370,745</b>                          | <b>6,635</b>       | <b>196,073</b>    | <b>8,158</b>    | <b>159,878</b>      |
| Other Assets.....                             | <u>697</u>                              | <u>697</u>         | <u>-</u>          | <u>-</u>        | <u>-</u>            |
| <b>Net Investments.....</b>                   | <b>\$ 371,442</b>                       | <b>\$ 7,332</b>    | <b>\$ 196,073</b> | <b>\$ 8,158</b> | <b>\$ 159,878</b>   |

#### *Interest Rate Risk - OCIP*

As of June 30, 2007, the OCIP had approximately \$118,977,000 of investment at fair value, all of which mature within one year. 26% was held in government securities rated AAA, 70% was held in corporate bonds which were rated AAA, but all comprise more than 5% of the investment portfolio and 4% was invested in commercial paper rated A-1.

*Interest Rate Risk – Business- Type Activities*

The Institutions of Higher Education and their blended component units have the following investments stated at fair value as of June 30, 2007 (amounts in thousands):

| <u>Investment</u>              | <u>Fair<br/>Value</u>    | <u>Investment Maturities (In Years)</u> |                         |                         |                          |
|--------------------------------|--------------------------|---|-------------------------|-------------------------|--------------------------|
|                                |                          | <u>Less than 1</u>                      | <u>1 - 5</u>            | <u>6 - 10</u>           | <u>More than 10</u>      |
| Debt Securities .....          | \$ 201,041               | \$ 33,681                               | \$ 60,024               | \$ 24,361               | \$ 82,975                |
| Bond Mutual Funds .....        | 780                      | 780                                     | -                       | -                       | -                        |
| US Agency Obligations .....    | 142,509                  | 47,642                                  | 28,242                  | 32,127                  | 34,498                   |
| Deposits .....                 | <u>211,116</u>           | <u>202,077</u>                          | <u>8,811</u>            | <u>105</u>              | <u>123</u>               |
| <b>Total Investments .....</b> | <b>555,446</b>           | <b>284,180</b>                          | <b>97,077</b>           | <b>56,593</b>           | <b>117,596</b>           |
| Other Assets .....             | <u>218,599</u>           | <u>218,599</u>                          | <u>-</u>                | <u>-</u>                | <u>-</u>                 |
| <b>Net Investments .....</b>   | <b><u>\$ 774,045</u></b> | <b><u>\$ 502,779</u></b>                | <b><u>\$ 97,077</u></b> | <b><u>\$ 56,593</u></b> | <b><u>\$ 117,596</u></b> |

*Interest Rate Risk - MSBA*

The MSBA's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates. As of June 30, 2007, the MSBA had \$1.6 billion invested in guaranteed investment contracts. These contracts are recorded at fair value. These contracts mature at different times ranging from FY08 to FY38.

*Credit Risk –Primary Government*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth, exclusive of Pension Trust Funds, minimizes concentration of credit risk, the risk attributed to the magnitude of the investment in a single issuer. The Commonwealth's investment policy prohibits the Treasury from investing more than 10% of the total investment portfolio into any single financial institution or issuer, excluding various public entity securities and repurchase agreements. There are no restrictions in the amount that can be invested in public entity securities; however, the portfolio may be invested in U.S. Treasury obligations and repurchase agreements.

The Treasury requires investments in commercial paper and bankers' acceptances have the highest letter and numerical ranking as rated by nationally recognized statistical ratings organizations as defined by the investment act of 1940. The Treasury does not have any additional policies regarding credit ratings of investments. The table on the following page provides information on the credit ratings associated with the Commonwealth's investments in MMDT (amounts in thousands):

*Governmental Activities*

| Governmental Activities                              | Quality Ratings |            |            |            |            |           |              |                |
|--|-----------------|------------|------------|------------|------------|-----------|--------------|----------------|
|  | Fair Value      | A1 / P1    | A2 / P2    | AAA        | AA+ to AA- | A+ to A-  | BBB+ to BBB- | BB+ to Unrated |
| <u>Cash Fund</u>                                     |                 |            |            |            |            |           |              |                |
| Asset-Backed Securities.....                         | \$ 23,801       | \$ 23,801  | \$ -       | \$ -       | \$ -       | \$ -      | \$ -         | \$ -           |
| Certificates of Deposit.....                         | 600,851         |            |            |            |            |           |              | 600,851        |
| Commercial Paper.....                                | 686,424         | 507,663    | 178,761    | -          | -          | -         | -            | -              |
| Master Notes.....                                    | 100,061         | -          | -          | -          | -          | -         | -            | 100,061        |
| Medium-Term Notes.....                               | 920,826         | 11,645     | -          | -          | -          | -         | -            | 909,180        |
| Repurchase Agreements.....                           | 681,785         | -          | -          | -          | -          | -         | -            | 681,785        |
| Subtotal.....  | 3,013,748       | 543,109    | 178,761    | -          | -          | -         | -            | 2,291,877      |
| Other Liabilities.....                               | (11,703)        | -          | -          | -          | -          | -         | -            | (11,703)       |
| Cash Fund Net Assets.....                            | \$ 3,002,045    | \$ 543,109 | \$ 178,761 | \$ -       | \$ -       | \$ -      | \$ -         | \$ 2,280,174   |
| <u>Short Term Bond Fund</u>                          |                 |            |            |            |            |           |              |                |
| Asset Backed Securities.....                         | 61,172          | -          | -          | 34,386     | 2,118      | 12,113    | 9,078        | 3,477          |
| Collateralized Mortgage Obligations.....             | 28,017          | -          | -          | 5,170      | -          | -         | 402          | 22,445         |
| Commercial Mortgage Securities.....                  | 63,313          | -          | -          | 49,684     | 275        | -         | -            | 13,354         |
| Nonconvertible Bonds.....                            | 102,884         | -          | -          | 3,447      | 20,811     | 29,477    | 48,412       | 737            |
| US Government Agency - Mortgage Securities.....      | 65,984          | -          | -          | -          | -          | -         | -            | 65,984         |
| US Government and Government Agency Obligations..... | 47,928          | -          | -          | 47,928     | -          | -         | -            | -              |
| Repurchase Agreements.....                           | 1,447           | -          | -          | -          | -          | -         | -            | 1,447          |
| Total Investments.....                               | 370,745         | -          | -          | 140,615    | 23,204     | 41,590    | 57,892       | 107,444        |
| Net other Assets (Total).....                        | 697             | -          | -          | -          | -          | -         | -            | 697            |
| Short Term Bond Fund Net Assets.....                 | 371,442         | -          | -          | 140,615    | 23,204     | 41,590    | 57,892       | 108,141        |
| Governmental Debt Investments.....                   | \$ 3,373,487    | \$ 543,109 | \$ 178,761 | \$ 140,615 | \$ 23,204  | \$ 41,590 | \$ 57,892    | \$ 2,388,315   |

*Business - Type Activities*

| Business - Type Activities  | Quality Ratings |               |              |              |              |                |
|-----------------------------|-----------------|---------------|--------------|--------------|--------------|----------------|
|                             | Fair<br>Value   | AAA           | AA+ to AA-   | A+ to A-     | BBB+ to BBB- | BB+ to Unrated |
| Debt Securities.....        | \$ 201,041      | \$ 67,324     | \$ 22,327    | \$ 54,749    | \$ 17,164    | \$ 39,477      |
| Bond Mutual Funds.....      | 780             | -             | -            | -            | -            | 780            |
| United States Agencies..... | 142,509         | 83,318        | 1,303        | 32,511       | 2,401        | 22,976         |
| Other Securities.....       | <u>211,116</u>  | <u>61,138</u> | <u>2,864</u> | <u>4,440</u> | <u>-</u>     | <u>142,674</u> |
| Subtotal.....               | 555,446         | 211,780       | 26,494       | 91,700       | 19,565       | 205,907        |
| Other Assets.....           | <u>218,599</u>  | <u>-</u>      | <u>-</u>     | <u>-</u>     | <u>-</u>     | <u>218,599</u> |
| Net Investments.....        | \$ 774,045      | \$ 211,780    | \$ 26,494    | \$ 91,700    | \$ 19,565    | \$ 424,506     |

*Credit Risk - MSBA*

The MSBA's investments as of June 30, 2007 were not rated.

*Credit Risk - HST*

For the HST, the weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2007.

The following represents the fixed income securities as of June 30, 2007 (amounts in thousands):

| <u>Investment</u>   | <u>Fair Value</u> | <u>Quality Ratings</u> |                   |                 |                     |                       |
|---|-------------------|------------------------|-------------------|-----------------|---------------------|-----------------------|
|   |                   | <u>AAA</u>             | <u>AA+ to AA-</u> | <u>A+ to A-</u> | <u>BBB+ to BBB-</u> | <u>BB+ to Unrated</u> |
| Asset backed securities .....   | \$ 6,446          | \$ 6,357               | \$ -              | \$ -            | \$ -                | \$ 89                 |
| Commercial mortgage backed securities .....                             | 6,012             | 5,734                  | -                 | -               | -                   | 278                   |
| Non-U.S. government backed C.M.O.'s .....                               | 4,190             | 4,190                  | -                 | -               | -                   | -                     |
| Commercial paper and CD's .....   | 1,714             | 1,574                  | 100               | -               | -                   | 40                    |
| Corporate bonds and other credits .....                                 | 37,516            | 5,638                  | 7,148             | 4,738           | 7,767               | 12,225                |
| U.S. government agencies .....  | 1,700             | 1,550                  | 150               | -               | -                   | -                     |
| U.S. government backed securities .....                                 | 33,405            | 33,405                 | -                 | -               | -                   | -                     |
| Municipal bonds .....   | 421               | -                      | 102               | -               | 318                 | 1                     |
| Pooled money market fund .....  | 7,508             | -                      | -                 | -               | -                   | 7,508                 |
| Other pooled funds .....  | 29,365            | -                      | -                 | -               | -                   | 29,365                |
| Total credit risk, fixed income and short-term investments .....        | 128,277           | \$ 58,448              | \$ 7,500          | \$ 4,738        | \$ 8,085            | \$ 49,506             |
| Fixed income investments explicitly backed by the U.S. Government ..... | 9,240             |                        |                   |                 |                     |                       |
| Total fixed income and short-term investments .....                     | \$ 137,517        |                        |                   |                 |                     |                       |

### Foreign Currency Risk – HST

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. HST manages exposure to foreign currencies by establishing investment guidelines with each of its international managers. These guidelines set maximum investment balances for any currency and / or country holdings must be within a certain percentage of predefined benchmarks. The following table represents HST's foreign currency exposure at June 30, 2007 (amounts in thousands):

|  | <u>Cash and Short-Term Investments</u> | <u>Equity</u> | <u>Fixed Income</u> | <u>Alternative Investments</u> | <u>Total</u> |
|--|--|---------------|---------------------|--------------------------------|--------------|
| Australian Dollar .....  | \$ 22                                  | \$ 3,353      | \$ -                | \$ -                           | \$ 3,375     |
| British Pound .....  | 134                                    | 20,926        | -                   | -                              | 21,060       |
| Canadian Dollar .....  | 6                                      | -             | 418                 | -                              | 424          |
| Columbian Peso .....   | -                                      | -             | 99                  | -                              | 99           |
| Danish Krone .....   | 126                                    | 1,487         | -                   | -                              | 1,613        |
| Euro .....   | (13)                                   | 24,098        | -                   | -                              | 24,085       |
| Hong Kong Dollar .....   | 13                                     | 2,599         | -                   | -                              | 2,612        |
| Iceland Krona .....  | -                                      | -             | 455                 | -                              | 455          |
| Japanese Yen .....   | 124                                    | 18,519        | 1,231               | -                              | 19,874       |
| Mexican Peso .....   | 22                                     | -             | 1,090               | -                              | 1,112        |
| New Zealand Dollar .....   | 1                                      | 57            | 218                 | -                              | 276          |
| Norwegian Krone .....  | -                                      | 1,108         | -                   | -                              | 1,108        |
| South African Com Rand .....                                       | -                                      | -             | 140                 | -                              | 140          |
| Singapore Dollar .....   | 18                                     | 974           | 917                 | -                              | 1,909        |
| South Korean Won .....   | -                                      | -             | 434                 | -                              | 434          |
| Swedish Krona .....  | 22                                     | 3,463         | -                   | -                              | 3,485        |
| Swiss Franc .....  | 17                                     | 5,640         | -                   | -                              | 5,657        |
| Uruguayan Peso .....   | -                                      | -             | 147                 | -                              | 147          |
| International fixed income pooled funds (various currencies) ..... | -                                      | -             | -                   | 7,468                          | 7,468        |
| Total securities subject to foreign currency risk .....            | 492                                    | 82,224        | 5,149               | 7,468                          | 95,333       |
| International investments denominated in U.S. Dollars .....        | -                                      | 7,976         | 3,562               | -                              | 11,538       |
| Total international investments, deposits and cash .....           | \$ 492                                 | \$ 90,200     | \$ 8,711            | \$ 7,468                       | \$ 106,871   |



*Interest Rate Risk – Pension Trust Funds*

As pension trust funds have a different investment horizon, the PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities investment managers. The guidelines with each individual manager require that the duration of the domestic debt investment portfolio be within a specified percentage or number of years of the duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have a duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors. These factors are reflected in the effective durations numbers provided in the table on the following page.

The PRIM Board compares the effective duration of a manager's portfolio to the Lehman Brothers Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch® High Yield Master II Index for domestic high yield fixed income securities. At June 30, 2007, the following table shows the debt investments by investment type, fair value and effective weighted duration rate. (Amounts in thousands except for years):

| <u>Investment</u>                                       | <u>Fair Value</u>    | <u>Effective Weighted Duration Rate</u><br>(Years) |
|---|----------------------|--|
| Asset backed securities.....                            | \$ 548,549           | 0.47   |
| Commercial mortgage backed securities.....              | 409,315              | 4.54   |
| Non-U. S. Government backed C.M.O.'s.....               | 312,453              | 1.95   |
| Commercial paper and CD's.....                          | 344,479              | 0.13   |
| Corporate bonds and other credits.....                  | 2,548,707            | 3.69   |
| U.S. Government bonds.....                              | 1,159,641            | 6.35   |
| U.S. Government agencies.....                           | 486,510              | 1.52   |
| U.S. Government TIPS.....                               | 1,283,166            | 6.26   |
| U.S. Government mortgage backed securities.....         | 2,810,034            | 4.43   |
| Global inflation linked bonds.....                      | 492,333              | 7.15   |
| Municipal bonds.....                                    | 12,978               | 7.79   |
| Pooled money market fund.....                           | 1,540,446            | 0.08   |
| Other pooled funds.....                                 | <u>1,322,664</u>     | NA   |
| Total PRIT fixed income and short-term investments..... | <u>\$ 13,271,275</u> |  |

*Credit Risk - Pension Trust Funds*

The PRIM Board establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. The guidelines for the PRIT Fund's high yield, fixed income portfolio

establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. The weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2007.

The following presents the PRIT Fund's debt securities credit ratings at June 30, 2007 (amounts in thousands):

| <u>Investment</u>  | <u>Fair Value</u> | <u>AAA</u>   | <u>AA+ to AA-</u> | <u>A+ to A-</u> | <u>BBB+ to BBB-</u> | <u>BB+ to Unrated</u> |
|--|-------------------|--------------|-------------------|-----------------|---------------------|-----------------------|
| Asset backed securities.....   | \$ 548,549        | \$ 546,184   | \$ 1,482          | \$ -            | \$ 305              | \$ 578                |
| Commercial mortgage backed securities.....                             | 409,315           | 395,696      | -                 | -               | -                   | 13,619                |
| Non-U.S. government backed C.M.O.s.....                                | 312,453           | 312,453      | -                 | -               | -                   | -                     |
| Commercial paper and CD's.....   | 344,479           | 197,757      | 49,983            | -               | -                   | 96,739                |
| Corporate bonds and other credits.....                                 | 2,548,707         | 175,823      | 355,745           | 418,942         | 476,334             | 1,121,863             |
| U.S. government agencies.....  | 486,510           | 484,777      | 1,733             | -               | -                   | -                     |
| U.S. government backed securities.....                                 | 2,734,317         | 2,685,118    | -                 | -               | -                   | 49,199                |
| Global inflation linked bonds.....                                     | 492,333           | 447,980      | 26,041            | 18,259          | -                   | 53                    |
| Municipal bonds.....   | 12,978            | 835          | 7,776             | -               | 3,917               | 450                   |
| Pooled money market fund.....  | 1,540,446         | -            | -                 | -               | -                   | 1,540,446             |
| Other pooled funds.....  | 1,322,664         | -            | -                 | -               | -                   | 1,322,664             |
| Total credit risk, fixed income and short-term investments.....        | 10,752,751        | \$ 5,246,623 | \$ 442,760        | \$ 437,201      | \$ 480,556          | \$ 4,145,611          |
| Fixed income investments explicitly backed by the U.S. Government..... | 2,518,524         |              |                   |                 |                     |                       |
| Total PRIT fixed income and short-term investments.....                | \$ 13,271,275     |              |                   |                 |                     |                       |

#### *Foreign Currency Risk – Pension Trust Funds*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The Treasury does not have a policy regarding foreign currency risk for the Pension Trust. The PRIM Board manages PRIT's exposure to foreign currencies by holding a percentage of PRIT's non-U.S. dollar denominated investments to U.S. dollars through forward foreign currency contracts. The following table on the next page represents PRIT's foreign currency exposure at June 30, 2007 (amounts in thousands):

|   | <b>Cash and<br/>Short-Term<br/>Investments</b> | <b>Equity</b>        | <b>Fixed Income</b> | <b>Alternative<br/>Investments</b> | <b>Total</b>         |
|---|--|----------------------|---------------------|------------------------------------|----------------------|
| Argentine Peso.....   | \$ 14  | \$ 1,030             | \$ -                | \$ -                               | \$ 1,044             |
| Australian Dollar.....  | 2,540  | 488,524              | 1,176               | -                                  | 492,240              |
| Brazilian Real.....   | 1,006  | 177,952              | 13,012              | -                                  | 191,970              |
| British Pound.....  | 50,517   | 2,381,104            | 202,267             | -                                  | 2,633,888            |
| Canadian Dollar.....  | 421  | 19,643               | 23,081              | -                                  | 43,145               |
| Chilean Peso.....   | 59   | 4,336                | -                   | -                                  | 4,395                |
| Columbian Peso.....   | -  | 3,480                | 2,417               | -                                  | 5,897                |
| Czech Koruna.....   | -  | 3,393                | -                   | -                                  | 3,393                |
| Danish Krone.....   | 836  | 136,481              | -                   | -                                  | 137,317              |
| Egyptian Pound.....   | -  | 10,989               | -                   | -                                  | 10,989               |
| Euro.....   | 45,704   | 3,405,704            | 231,279             | -                                  | 3,682,687            |
| Greek Drachma.....  | 4  | -                    | -                   | -                                  | 4                    |
| Hong Kong Dollar.....   | 3,633  | 484,998              | 680                 | -                                  | 489,311              |
| Hungarian Forint.....   | 10   | 8,427                | -                   | -                                  | 8,437                |
| Iceland Krona.....  | -  | -                    | 15,618              | -                                  | 15,618               |
| Indian Rupee.....   | 39   | 40,425               | -                   | -                                  | 40,464               |
| Indonesian Rupian.....  | 500  | 27,910               | 3,852               | -                                  | 32,262               |
| Israeli Shekel.....   | 56   | 13,828               | -                   | -                                  | 13,884               |
| Japanese Yen.....   | 24,283   | 2,199,599            | 60,682              | -                                  | 2,284,564            |
| Malaysian Ringgit.....  | 779  | 144,331              | -                   | -                                  | 145,110              |
| Mexican Peso.....   | 486  | 74,404               | 32,631              | -                                  | 107,521              |
| Taiwan Dollar.....  | 1,487  | 229,881              | -                   | -                                  | 231,368              |
| Turkish Lira.....   | -  | 33,331               | -                   | -                                  | 33,331               |
| New Zealand Dollar.....   | 829  | 10,107               | 9,411               | -                                  | 20,347               |
| Norwegian Krone.....  | 877  | 92,244               | -                   | -                                  | 93,121               |
| Peruvian Nuevo Sol.....   | -  | 690                  | -                   | -                                  | 690                  |
| Philippines Peso.....   | 53   | 41,786               | -                   | -                                  | 41,839               |
| Polish Zloty.....   | -  | 33,698               | -                   | -                                  | 33,698               |
| Russian Rubel.....  | -  | 41,422               | -                   | -                                  | 41,422               |
| South African Rand.....   | 105  | 114,552              | 2,691               | -                                  | 117,348              |
| Singapore Dollar.....   | 1,396  | 98,732               | 4,839               | -                                  | 104,967              |
| South Korean Won.....   | -  | 487,922              | 4,749               | -                                  | 492,671              |
| Swedish Krona.....  | 6,060  | 329,647              | 41,196              | -                                  | 376,903              |
| Swiss Franc.....  | 10,650   | 678,813              | -                   | -                                  | 689,463              |
| Thailand Baht.....  | 366  | 69,731               | -                   | -                                  | 70,097               |
| Uruguayan Peso.....   | -  | -                    | 3,260               | -                                  | 3,260                |
| Alternative investment funds denominated<br>in foreign currencies (various currencies)..... | -  | -                    | -                   | 514,487                            | 514,487              |
| International equity pooled<br>funds (various currencies).....                              | -  | 381,742              | -                   | -                                  | 381,742              |
| International fixed income pooled<br>funds (various currencies).....                        | -  | -                    | 76,784              | -                                  | 76,784               |
| Total securities subject to<br>foreign currency risk.....                                   | 152,710  | 12,270,856           | 729,625             | 514,487                            | 13,667,678           |
| International investments denominated<br>in U.S. Dollars.....                               | -  | 1,036,407            | 1,143,818           | -                                  | 2,180,225            |
| <b>Total PRIT international investments,<br/>deposits and cash.....</b>                     | <b>\$ 152,710</b>                              | <b>\$ 13,307,263</b> | <b>\$ 1,873,443</b> | <b>\$ 514,487</b>                  | <b>\$ 15,847,903</b> |

*Concentration of Credit Risk –HST and PRIT*

The PRIM Board manages HST's and PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager, that limit the percent of investment in any single issue or issuer.

MMDT, HST and PRIT have no investments at fair value, that exceed 5% of their net assets held in trust for pool participants as of June 30, 2007.

HST and PRIT may invest in derivative transactions. These investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. Descriptions of such derivatives are as follows:

*Forward Currency Contracts*

The HST and PRIT enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The contracts are marked-to-market daily and the change in market value is recorded as an unrealized gain or loss by HST and PRIT.

When a contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

As of June 30, 2007, HST had open foreign exchange contracts with combined net unrealized gains of approximately \$3,322,000 with various delivery dates in July 2007. As of June 30, 2007, PRIT had open foreign exchange contracts with combined net unrealized losses of \$2,105,000 with various delivery dates to November, 2007.

*Futures Contracts*

The HST and PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments, which may correspond to the change in value of the hedged instruments. In addition, there is a risk that HST and PRIT may not be able to close out its future positions due to a non-liquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The HST and PRIT may also invest in financial futures contracts for non-hedging purposes.

**A. Derivative Instruments**

The HST held 290 financial futures contracts at June 30, 2007, with various expirations during FY08 and FY09. These contracts were mainly for Eurodollars, US Treasury securities and in the S&P 500 E-Mini Index. The total notional amount of these contracts as of June 30, 2007 was approximately \$41,126,000, with an aggregated fair value as of that date of approximately \$41,089,000, yielding an unrealized net appreciation (depreciation) of approximately (\$37,000).

PRIT held 14,303 contracts outstanding at June 30, 2007 with various expirations from FY08 to FY10. These contracts are for cash and cash equivalents, fixed income, equities and commodities. The aggregated notional exposure amount as of June 30, 2007 was \$3,727,536,000, with a fair value of \$3,724,293,000, yielding an unrealized net appreciation (depreciation) of approximately (\$3,243,000).

Payments are made or received by the PRIT each day, depending on the daily fluctuations in the value of the underlying security and are recorded as unrealized gains or losses. When the contracts are closed, the HST and Pension Trust Funds recognize a realized gain or loss.

#### *Swaps – PRIT and HST*

PRIT has entered into interest rate swap contracts for the purpose of hedging the floating-rate interest exposure of its financed real estate investments. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs). PRIT either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable-rate interest. Variable rate interest received is the Federal Funds Effective Rate. Changes in fair value are included as part of investment income.

As of June 30, 2007, PRIT had nine contracts in effect with an aggregated notional amount of \$450,000,000 to six investment banks, with fixed rates paid ranging from 3.17% to 4.27% that had effective dates ranging from FY02 to FY05 and maturity dates from FY08 to FY16. The contracts have an aggregate fair value of \$20,345,000. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRIT has various other swap contracts outstanding as of June 30, 2007 but have similar purposes and valuation techniques to those previously disclosed. Counterparty exposure was with 6 major investment companies with ratings ranging from AA-to AA and various other banks with other ratings. Open swap contracts as of June 30, 2007 were as follows (amounts expressed in thousands except for number of contracts):

|                                       | <u>Number of<br/>Open<br/>Contracts</u> | <u>PRIT Pays</u>   | <u>PRIT Receives</u>  | <u>Maturity<br/>Dates<br/>(range)</u> | <u>Aggregate<br/>Notional<br/>Amount</u> | <u>Aggregate<br/>Unrealized<br/>Appreciation /<br/>(Depreciation)<br/>Amount</u> |
|---------------------------------------|---|--|---|---------------------------------------|--|--|
| Interest rate swaps fix pay.....      | 8                                       | 1.51%-6.50%  | Various 3 month,<br>6 month, inflation<br>protection and<br>constant maturing<br>mortgage rates | FY07-FY36                             | \$ 2,791,323                             | \$ 22,171  |
| Interest rate swaps variable pay..... | 9                                       | Various 3<br>month, 6<br>month rates<br>and option<br>premiums                 | 2% - 9.92%  | FY09-FY38                             | 1,735,681                                | (8,466)  |
| Credit default swaps.....             | 33                                      | Various<br>ranges from<br>0.15% -<br>1.20% and<br>credit default<br>protection | Various ranges<br>from 0.10% -<br>2.39% and credit<br>default protection                        | FY08- FY17                            | 308,050                                  | 1,703  |
| Equity index swaps.....               | 1                                       | LIBOR-1 to<br>LIBOR +2   | S&P 500   | FY08                                  | 2,077,575                                | 5,835  |
| Commodity swaps.....                  | 1                                       | 0.25%-0.26%  | AIG Excess<br>Return<br>Commodity   | FY08                                  | 978,348                                  | (17,473)   |

***B. Discretely Presented  
Component Unit  
Investments***

Management of the various discretely presented component units hedge interest rate risk and credit risk differently, dependent on the particular needs and circumstances of each entity. More detailed information may be found in the component units' separately audited financial statements. In the aggregate, interest rate risk and credit risk of the investments of the discretely presented component units at June 30, 2007 are as follows (amounts in thousands):

| <u>Investment Type</u>                     | <u>Fair<br/>Value</u> | <u>Investment Maturities (in years)</u> |                    |                    |                         | <u>Range of<br/>Credit Ratings</u> |
|--|-----------------------|---|--------------------|--------------------|-------------------------|------------------------------------|
|  |                       | <u>Less<br/>Than 1</u>                  | <u>1 - 3 years</u> | <u>4 - 8 years</u> | <u>Over<br/>8 years</u> |                                    |
| Forward delivery agreements.....           | \$ 188,855            | \$ 188,855                              | \$ -               | \$ -               | \$ -                    | N/R                                |
| Guaranteed investment contracts .....      | 2,057,477             | 232,446                                 | 503,500            | 395,773            | 925,758                 | N/R - A A A                        |
| Repurchase agreements.....                 | 69,312                | 69,312                                  | -                  | -                  | -                       | N/R - A A A                        |
| Various federal obligations.....           | 362,449               | 211,948                                 | 53,066             | 91,922             | 5,513                   | A A A                              |
| Corporate bonds.....                       | 246,020               | 222,150                                 | 23,870             | -                  | -                       | BBB - A A A                        |
| Asset backed securities.....               | 82                    | 82                                      | -                  | -                  | -                       |                                    |
| Auction rate securities.....               | 18,502                | 18,502                                  | -                  | -                  | -                       | A A A                              |
| <b>Total Fixed Income Investments.....</b> | <b>2,942,697</b>      | <b>\$ 943,295</b>                       | <b>\$ 580,436</b>  | <b>\$ 487,695</b>  | <b>\$ 931,271</b>       |                                    |
| <u>Other Investments</u>                   |                       |   |                    |                    |                         |                                    |
| Equities.....                              | 131,268               |   |                    |                    |                         |                                    |
| MMDT.....                                  | 524,066               |   |                    |                    |                         |                                    |
| Short - term investment funds.....         | 8,598                 |   |                    |                    |                         |                                    |
| Money market mutual funds.....             | 281,418               |   |                    |                    |                         |                                    |
| <b>Total Investments .....</b>             | <b>\$ 3,888,047</b>   |   |                    |                    |                         |                                    |



*Custodial Credit Risk-Deposits*

Custodial Credit Risk is the risk that in the event of a bank failure, the component unit's deposits may not be recovered. The component units do not have deposit policies for custodial credit risk. At June 30, 2007, the carrying amount of deposits totaled \$316,020,000 and the bank balance was \$318,853,000. Of the bank balance \$128,886,000 was insured and collateralized and \$189,967,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Foreign Currency Risk-Investment*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The component units are exposed to foreign currency risk as of June 30, 2007.

*Concentration of Credit Risk –MBTA – MWPAT - MTA*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. MWPAT places no limit on the amount that may be invested in any one issuer. More than 5% of MBTA, MWPAT and MTA's total investments are with the following issuers:

| <b>Issuer:</b>                            | <b>Percent of Total Investments</b> |                     |                   |
|---|-------------------------------------|---------------------|-------------------|
|   | <b><u>MBTA</u></b>                  | <b><u>MWPAT</u></b> | <b><u>MTA</u></b> |
| AIG.....                                  | 6.2%                                | -                   | 21.9%             |
| AMBAC.....                                | 14.7%                               | -                   | -                 |
| FSA Capital Management Services, LLC..... | -                                   | 29.0%               | -                 |
| General Electric Capital Corp.....        | -                                   | -                   | 4.4%              |
| IXIS Funding Corp.....                    | -                                   | 29.0%               | -                 |
| MBIA.....                                 | 10.4%                               | -                   | -                 |
| Rabobank.....                             | 16.9%                               | -                   | -                 |
| Societe Generale.....                     | -                                   | 4.0%                | -                 |
| Trinity Funding Company, LLC.....         | -                                   | 16.0%               | -                 |
| U.S. Agencies.....                        | -                                   | -                   | 73.7%             |
| Wachovia Bank.....                        | 11.3%                               | -                   | -                 |

*Component Unit Swap Agreements*

The MBTA has five interest rate swaps and swaptions in order to lower its cost of capital, protect against rising interest rates, lock in interest rate savings, realize refinancing savings according to schedules that suit the MBTA's needs, and to provide the authority with a stable and predictable cost of fuel. At June 30, 2007, the MBTA's swap and swaption transactions had an aggregate notional amount of \$325.0 million, with fixed payable rates ranging from 4.7% to 5.2%, variable receipt rates equal to the Bond Market Association Municipal Swap Index (BMA), CPI plus various additional basis points and 67% of LIBOR. One swap has a lump sum payment due from a counterparty in FY08 for \$4.5 million, which is recognized as deferred revenue.

In FY99, the MTA entered into an interest rate swap option agreement with Morgan Guaranty Trust Company of New York (MGTC). This “Swaption” agreement runs through July 1, 2029 and carries a notional amount of \$100 million. The MTA received a premium payment in FY00 of \$5.4 million as part of the agreement. This premium was recorded by the MTA as a deferred credit and is being recongnized as an adjustment of interest expense over the 30-year life of the agreement. MGTC exercised its option in FY03. As such, the MTA’s payment obligation is equal to the difference between the BMA and 67% of the 3 month LIBOR, multiplied by the \$100 million. Conversely, the Authority may receive payments under this agreement when 67% of LIBOR exceeds the BMA. The MTA may be exposed to certain risks related to this transaction should the counterparty default. Counterparty ratings range from AA to Aa2.

In FY01, the MTA entered into five interest rate swap options with UBS AG, (UBS). These swaptions grant UBS the right to enter a swap with the MTA in which UBS would pay a floating rate and receive a fixed rate from the MTA. The swaption exercise dates and fixed rates due from the MTA are designed to match the call provisions and rates of certain of the MTA’s bonds. If UBS exercises its option, the MTA expects to refund certain of its fixed rate bonds with floating rate bonds. The floating rate received by the MTA under the swap would provide a hedge for the floating rate due on its refunding bonds. In turn, the MTA’s payments to UBS would match the payments expected to be made to fixed rate bondholders. UBS paid \$6.2 million on behalf of the MTA during FY01 to purchase insurance for the payments that the MTA may be required to make under the swaps, if exercised. This amount was recorded in the MTA’s financial statements as prepaid insurance and is amortized over the life of the swap, which is 35 years.

As of December 31, 2006 the MTA had recorded a long-term receivable of \$3.3 million related to the swaption. A corresponding deferred credit totaling \$29.1 million was recorded during FY06 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The MTA may be exposed to certain risks related to this transaction should the counterparty default.

Receivable amounts recorded by the MTA under these agreements are as follows:

| Due January 1,           | UBS            |                |
|--------------------------|----------------|----------------|
|                          | <u>Amounts</u> |                |
| 2007.....                | \$             | 3,281          |
| 2008.....                |                | <u>3,281</u>   |
|                          |                | 6,562          |
| Less: current portion... |                | <u>(3,281)</u> |
|                          | \$             | <u>3,281</u>   |

In FY04, the MTA entered into a basis swap with Lehman Brothers Special Financing, Inc. (Lehman) as a way to reduce the risk associated with the 1999 Tax Basis Swap with MGTC that was exercised in FY03. Under the contract with MGTC, the MTA's payment obligation would be equal to the difference between BMA and 67% of the 3-month LIBOR, multiplied by \$100 million. In the current low interest rate environment, 67% of LIBOR has not equaled BMA. Therefore, the MTA has been a payer under the contract. The Lehman swap verlays a basis swap on the three-month LIBOR component of the MGTC swap to adjust the way the Authority receives its floating payment. Instead of receiving 67% of three-month LIBOR, the MTA will receive from Lehman 55% of three-month LIBOR plus 50 basis points and pay Lehman 67% of three-month LIBOR that it was receiving from MGTC.

As of December 31, 2006 and 2005, the long term ratings for Lehman, the counterparty to the transaction, were A1 (Moody's) and A (Standards & Poor's).

### 3. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net assets as follows (amounts in thousands):

| <i>Primary Government</i>                              | Taxes<br><u>Receivable</u> | Federal<br>Grants and<br><u>Reimbursements</u> | <u>Loans</u>     | Other<br><u>Receivables</u> | <u>Total</u>       |
|--|----------------------------|--|------------------|-----------------------------|--------------------|
| Governmental receivables .....                         | \$ 4,079,698               | \$ 1,414,150                                   | \$ 51,522        | \$ 1,677,439                | \$ 7,222,809       |
| Business-type activity receivables.....                | -                          | 46,239   | 60,170           | 783,629                     | 890,038            |
| Less: allowance for uncollectibles.....                | <u>(1,255,525)</u>         | <u>(5,637)</u>                                 | <u>(4,640)</u>   | <u>(1,379,179)</u>          | <u>(2,644,981)</u> |
| Receivables, net of allowance for uncollectibles ..... | 2,824,173                  | 1,454,752                                      | 107,052          | 1,081,889                   | 5,467,866          |
| Less: current portion:                                 |                            |  |                  |                             |                    |
| Governmental activities .....                          | (2,824,173)                | (1,408,513)                                    | -                | (355,369)                   | (4,588,055)        |
| Business-type activities .....                         | <u>-</u>                   | <u>(46,239)</u>                                | <u>(39,801)</u>  | <u>(691,225)</u>            | <u>(777,265)</u>   |
| Noncurrent receivables .....                           | <u>\$ -</u>                | <u>\$ -</u>                                    | <u>\$ 67,251</u> | <u>\$ 35,295</u>            | <u>\$ 102,546</u>  |

#### 4. RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of receivables, payables and transfers between funds vary by Legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end stabilization transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from stabilization to fund current operations and various other transfers for operations, largely for institutions of higher education. Activity between funds reflected as due to / from primary government in the various statements are summarized as follows (amounts in thousands):

| <u>Receiving Fund</u>                         | <u>Paying Fund</u>          | <u>Amount</u>              |
|---|-----------------------------|----------------------------|
| <b>Governmental Funds</b>                     |                             |                            |
| General                                       | Highway                     | \$ 79,197                  |
|   | Lotteries                   | 1,101,668                  |
|   | Other Governmental Funds    | 592,994                    |
| Highway                                       | Other Governmental Funds    | 701                        |
| Debt Service*                                 | General                     | 1,312,643                  |
|   | Highway                     | 771,810                    |
|   | Other Governmental Funds    | 255,209                    |
| Other governmental funds                      | General                     | 1,239,525                  |
|   | Highway                     | 26,281                     |
|   | Other Governmental Funds    | 1,134,273                  |
| <b>Total governmental funds</b>               |                             | <u>6,514,301</u>           |
| <b>Business - Type Activities</b>             |                             |                            |
| General Fund                                  | University of Massachusetts | 63,522                     |
|   | State Colleges              | 17,915                     |
|   | Community Colleges          | 18,017                     |
| University of Massachusetts                   | General Fund                | 645,875                    |
|   | Other Governmental Funds    | 24,580                     |
| State Colleges                                | General Fund                | 267,363                    |
|   | Other Governmental Funds    | 14,921                     |
| Community Colleges                            | General Fund                | 304,674                    |
|   | Other Governmental Funds    | 9,408                      |
| <b>Total business - type activities (net)</b> |                             | <u>1,167,367</u>           |
| <b>Total transfers</b>                        |                             | <u><b>\$ 7,681,668</b></u> |

\*Transfers for debt service are net of amounts funded in escrows for crossover refunding debt.

Remaining receivables and payables between funds as of June 30, 2007 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2007. The amount due to the general fund largely represents deficits funded by the general fund. The following is a summary of receivables and payables between funds remaining as of June 30, 2007:

| <u>Receivable Fund</u>          | <u>Payable Fund</u>         | <u>Amount</u>       |
|---------------------------------|-----------------------------|---------------------|
| <b>Governmental Funds:</b>      |                             |                     |
| General                         | Highway Fund                | \$ 1,291,191        |
|                                 | Lottery Fund                | 41,466              |
|                                 | Nonmajor Governmental Funds | 296,090             |
| Nonmajor Governmental Funds     | Nonmajor Governmental Fund  | 74,582              |
| <b>Total Governmental Funds</b> |                             | <b>\$ 1,703,329</b> |
| <b>Proprietary Funds:</b>       |                             |                     |
| University of Massachusetts     |                             | 10,759              |
| <b>Total amounts due</b>        |                             | <b>\$ 1,714,088</b> |

#### *Central Artery / Tunnel Project*

The Commonwealth is in the final stages of completion in the most expensive public construction project in the history of the United States, the Central Artery / Tunnel Project (CA/T or Project). The project depressed the Central Artery (Interstate 93) through downtown Boston and connected the Massachusetts Turnpike (Interstate 90) through a tunnel under Boston Harbor directly to Logan International Airport. In addition to Commonwealth debt and funds from the Federal Government, the MTA (a component unit) and Massport (a related organization) have contributed to the costs of construction. Once completed, the assets of the project will be transferred to these entities for operations and maintenance pursuant to the provisions of Chapter 81A of Massachusetts General Laws.

The Commonwealth has recorded as assets the Commonwealth's construction cost to date for the Central Artery / Tunnel Project, net of amounts transferred to the MTA and Massport. This amount is reflected as "Construction in Process – Central Artery / Tunnel Project". This amount is offset by two corresponding liabilities: "Due to Component Units – Central Artery / Tunnel Project" in the Statement of Net Assets for the MTA's portion and "Due to Other Related Organizations" for Massport's portion. As portions of the project are completed and transferred to either the MTA or Massport in accordance with Massachusetts General Laws, Chapter 81A, these amounts will be reduced for the value of the assets transferred.

The following summarizes the activity for the CA/T for FY07:

|  |                             |
|--|-----------------------------|
| <b>Total Project budget as of June 30, 2007 .....</b>  | <b><u>\$ 14,798,000</u></b> |
| <b>Determination of Amounts Payable:</b>   |                             |
| Cumulative authorized project invoices as of June 30, 2007 .....   | \$ 14,793,954               |
| Less: Amounts to be transferred to Massport .....  | (365,000)                   |
| Less: Amounts transferred to MTA and recognized as assets by MTA .....   | (6,732,491)                 |
| Less: Amounts transferred to other entities .....  | <u>(20,949)</u>             |
| Subtotal - Due to Component Units - Central Artery / Tunnel project as of June 30, 2007.....   | 7,675,514                   |
| Less: Reduction of payable due to accumulated depreciation of assets in use to be transferred.....   | <u>(677,337)</u>            |
| <b>Due to Component Units - Central Artery / Tunnel Project as of June 30, 2007 .....</b>  | <b><u>\$ 6,998,177</u></b>  |
| <b>Reconciliation of Central Artery / Tunnel Fixed Assets to Assets to Due to Component Units -<br/>Central Artery / Tunnel Project as of June 30, 2007:</b> |                             |
| <b>Determination of Assets in Use:</b>   |                             |
| Infrastructure - Central Artery / Tunnel Project.....  | \$ 7,573,825                |
| Less: Accumulated depreciation of infrastructure assets in use to be transferred.....  | <u>(677,337)</u>            |
| Net book value of Infrastructure - Central Artery / Tunnel Project.....  | 6,896,488                   |
| Land - Central Artery / Tunnel Project.....  | <u>339,007</u>              |
| <b>Net book value of Central Artery / Tunnel Project Assets in use to be transferred.....</b>  | <b>7,235,495</b>            |
| Construction in process - Central Artery / Tunnel Project.....   | <u>127,682</u>              |
| Subtotal.....  | 7,363,177                   |
| Less: Due to related organizations (Massport) .....  | <u>(365,000)</u>            |
| <b>Due to Component Units - Central Artery / Tunnel Project as of June 30, 2007 .....</b>  | <b><u>\$ 6,998,177</u></b>  |



## 5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2007 are as follows:

| <i>Primary Government<br/>Governmental Activities</i>              | July 1, 2006<br>Beginning<br><u>Balance</u> | <u>Increases</u>           | <u>Decreases</u>           | June 30, 2007<br>Ending<br><u>Balance</u> |
|--|---|----------------------------|----------------------------|---|
| Capital assets not being depreciated:                              |   |                            |                            |   |
| Land .....   | \$ 728,417                                  | \$ 24,750                  | \$ 15                      | \$ 753,152                                |
| Land Central Artery / Tunnel Project .....                         | 463,867                                     | 40,120                     | 164,980                    | 339,007                                   |
| Construction in process - non - Central Artery / Tunnel Project .. | 1,689,497                                   | 696,572                    | 237,858                    | 2,148,211                                 |
| Construction in process - Central Artery / Tunnel Project .....    | <u>133,743</u>                              | <u>-</u>                   | <u>6,062</u>               | <u>127,681</u>                            |
| Total capital assets not being depreciated .....                   | 3,015,524                                   | 761,442                    | 408,915                    | 3,368,051                                 |
| Capital assets being depreciated:                                  |   |                            |                            |   |
| Buildings .....  | 3,853,952                                   | 151,437                    | 97,052                     | 3,908,337                                 |
| Machinery and equipment .....                                      | 793,334                                     | 79,210                     | 13,407                     | 859,137                                   |
| Infrastructure non - Central Artery / Tunnel Project.....          | 10,966,443                                  | 134,763                    | 31                         | 11,101,175                                |
| Infrastructure - Central Artery / Tunnel Project.....              | <u>11,870,964</u>                           | <u>888,106</u>             | <u>5,185,245</u>           | <u>7,573,825</u>                          |
| Total capital assets being depreciated .....                       | 27,484,693                                  | 1,253,516                  | 5,295,735                  | 23,442,474                                |
| Less, accumulated depreciation:                                    |   |                            |                            |   |
| Buildings .....  | (1,844,129)                                 | (79,568)                   | 1,428                      | (1,922,269)                               |
| Machinery and equipment .....                                      | (575,491)                                   | (51,808)                   | 26,902                     | (600,397)                                 |
| Infrastructure non - Central Artery / Tunnel Project.....          | (4,806,329)                                 | (254,601)                  | -                          | (5,060,930)                               |
| Infrastructure - Central Artery / Tunnel Project.....              | <u>(777,100)</u>                            | <u>(332,420)</u>           | <u>432,184</u>             | <u>(677,336)</u>                          |
| Total accumulated depreciation .....                               | <u>(8,003,049)</u>                          | <u>(718,397)</u>           | <u>460,514</u>             | <u>(8,260,932)</u>                        |
| Total capital assets being depreciated, net .....                  | <u>19,481,644</u>                           | <u>535,119</u>             | <u>4,835,221</u>           | <u>15,181,542</u>                         |
| Governmental activity capital assets, net .....                    | <u>\$ 22,497,168</u>                        | <u>\$ 1,296,561</u>        | <u>\$ 5,244,136</u>        | <u>\$ 18,549,593</u>                      |
| <br><i>Business - Type Activities</i>                              |   |                            |                            |   |
| Capital assets not being depreciated:                              |   |                            |                            |   |
| Land .....   | \$ 64,415                                   | \$ 15,745                  | \$ -                       | \$ 80,160                                 |
| Construction in process .....                                      | 439,382                                     | 315,356                    | 286,435                    | 468,303                                   |
| Historical treasures .....   | <u>1,194</u>                                | <u>181</u>                 | <u>111</u>                 | <u>1,264</u>                              |
| Total capital assets not being depreciated .....                   | 504,991                                     | 331,282                    | 286,546                    | 549,727                                   |
| Capital assets being depreciated:                                  |   |                            |                            |   |
| Buildings .....  | 3,130,099                                   | 383,258                    | 41,955                     | 3,471,402                                 |
| Machinery and equipment .....                                      | 789,447                                     | 80,818                     | 25,901                     | 844,364                                   |
| Library collections, not including historical treasures .....      | <u>127,769</u>                              | <u>9,047</u>               | <u>7,063</u>               | <u>129,753</u>                            |
| Total capital assets being depreciated .....                       | 4,047,315                                   | 473,123                    | 74,919                     | 4,445,519                                 |
| Less, accumulated depreciation:                                    |   |                            |                            |   |
| Buildings .....  | (1,592,424)                                 | (139,418)                  | 40,899                     | (1,690,943)                               |
| Machinery and Equipment .....                                      | (512,684)                                   | (52,808)                   | 23,218                     | (542,274)                                 |
| Library collections, not including historical treasures .....      | <u>(22,117)</u>                             | <u>(1,043)</u>             | <u>487</u>                 | <u>(22,673)</u>                           |
| Total accumulated depreciation .....                               | <u>(2,127,225)</u>                          | <u>(193,269)</u>           | <u>64,604</u>              | <u>(2,255,890)</u>                        |
| Total capital assets being depreciated, net .....                  | <u>1,920,090</u>                            | <u>279,854</u>             | <u>10,315</u>              | <u>2,189,629</u>                          |
| Business - type activity capital assets, net .....                 | <u>\$ 2,425,081</u>                         | <u>\$ 611,136</u>          | <u>\$ 296,861</u>          | <u>\$ 2,739,356</u>                       |
| <b>Total Primary Government capital assets, net .....</b>          | <b><u>\$ 24,922,249</u></b>                 | <b><u>\$ 1,907,697</u></b> | <b><u>\$ 5,540,997</u></b> | <b><u>\$ 21,288,949</u></b>               |

Depreciation expense was charged to the various functions of governmental activities as follows:

| <b><u>Function:</u></b>  | <b><u>Amount</u></b> |
|--|----------------------|
| General government.....  | \$ 47,801            |
| Judiciary .....  | 9,203                |
| Energy and Environmental .....   | 14,960               |
| Housing and community development.....   | 30                   |
| Health and human services.....   | 21,576               |
| Transportation and public works.....   | 589,543              |
| Education.....   | 7                    |
| Public safety and homeland security.....   | 35,152               |
| Economic development.....  | 125                  |
|  | <u>718,397</u>       |
| Total depreciation .....   | 718,397              |
| Less: Amount recorded as an offset to depreciation to<br>equalize the payable to component units and non -<br>component units related to the Central Artery /<br>Tunnel Project..... | (332,420)            |
| Depreciation recorded to governmental activities.....  | <u>\$ 385,977</u>    |

Increases to accumulated depreciation differ from depreciation expense as shown on the statement of activities due to the reduction of the payable to net book value of "Due to component unit – Central Artery / Tunnel Project," which is presented as an adjustment to depreciation expense so that the value of the untransferred assets and the amount due to the Turnpike Authority and to Massport always equal.

## 6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

### A. General Fund

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term financing criteria, it is classified as a fund liability. Short-term debt may be issued on either a stand-alone basis or through a commercial paper program maintained by the Commonwealth.

The balance of revenue anticipation notes (RANs) outstanding may fluctuate during a fiscal year, but must be reduced to zero at June 30. During FY07, the Commonwealth issued RANs through its commercial paper program on a periodic basis to meet cash flow needs. A maximum of \$900,000,000 of RANs were outstanding at any time during the year. In addition, the Commonwealth issued \$400,000,000 in 90 day notes that were issued and retired in the spring of 2007 that were not backed by the Commonwealth's credit facilities. All RANs were retired before the end of June 2007.

### B. Capital Projects Funds

The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects. BANs may be issued either on a stand-alone basis or through the Commonwealth's commercial paper program.

Beginning in FY02 and continuing through FY07, the Commonwealth periodically issued BANs through the commercial paper program. BANs were rolled over and paid down at various times during the fiscal year. No more than \$25,100,000 of BANs were outstanding under the commercial paper program at any time during FY07. At June 30, 2007, no BANs remain outstanding.

On March 28, 2002, \$180,000,000 in General Obligation BANs were also issued to finance costs of the Central Artery / Tunnel Project, in advance of receiving certain contributions from the Massachusetts Port Authority (Massport). The BANs were retired prior to and during FY07. These BANs are a component of the BANs activity described above.

On December 31, 2003, Massport was expected to make an additional payment to the Commonwealth under the Transfer Agreement of \$50,000,000. This payment was received and applied in August of 2005, leaving a balance of BANs of \$25,100,000. These BANs were retired during FY07. A final payment of \$50,000,000 was due on December 31, 2004 under the Transfer Agreement only to the extent that Massport has received assets of commensurate value. Payments were made totaling \$25,100,000 during FY07 to retire the aforementioned BANs. An additional \$12,500,000 has been received in FY08 to further retire this amount due under the Transfer Agreement.

#### MSBA

During FY07, the MSBA issued commercial paper notes of \$455.0 million to fund school construction and renovation projects. These notes are secured by a \$544.4 million irrevocable letter of credit which expires in FY10. This letter of credit carries a fee of 0.001% on the total amount. The maximum aggregate principal amount of commercial paper which may be outstanding at one time is \$500.0 million. At June 30, 2007, the amount outstanding was \$455.0 million. The weighted average interest rate on commercial paper outstanding as of June 30, 2007 was 3.65%.

### C. Credit Facilities

During FY07, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$1,000,000,000. The Commonwealth has a total of five credit facilities to provide such liquidity support, each in the amount of \$200,000,000. These facilities expire in periods from December 2007 through November 2015 at various times, with an optional termination at January 2010 or January 2015.

The following schedule details short – term financing and credit agreement activity, net, for all funds for the fiscal year (amounts in thousands):

|   | Beginning<br>Balance<br>July 1, 2006 | Issued /<br>Drawn | Redeemed /<br>Repaid | Ending<br>Balance<br>June 30, 2007 | Credit Limit<br>June 30, 2007 |
|---|--------------------------------------|-------------------|----------------------|------------------------------------|-------------------------------|
| General Fund:   |                                      |                   |                      |                                    |                               |
| Revenue anticipation notes .....                                  | \$ -                                 | \$ 1,300,000      | \$ (1,300,000)       | \$ -                               | \$ -                          |
| Credit Facility agreements .....                                  | -                                    | -                 | -                    | -                                  | 1,000,000                     |
| Subtotal - General Fund activity .....                            | -                                    | 1,300,000         | (1,300,000)          | -                                  | 1,000,000                     |
| Capital Projects Funds:   |                                      |                   |                      |                                    |                               |
| Bond anticipation notes .....                                     | 25,100                               | -                 | (25,100)             | -                                  | -                             |
| Subtotal - Capital Projects Funds activity .....                  | 25,100                               | -                 | (25,100)             | -                                  | -                             |
| Total short-term financing<br>and credit agreement activity ..... | 25,100                               | 1,300,000         | (1,325,100)          | -                                  | -                             |
| MSBA  |                                      |                   |                      |                                    |                               |
| Commercial paper .....  | -                                    | 455,000           | -                    | 455,000                            | 544,400                       |
| Total primary government .....                                    | \$ 25,100                            | \$ 1,755,000      | \$ (1,325,100)       | \$ 455,000                         | \$ 1,544,400                  |

## 7. LONG-TERM OBLIGATIONS

Under the Constitution of the Commonwealth of Massachusetts, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit to another entity by a two-thirds vote of the members of each house of the Legislature. The Legislature may not in any manner allow the Commonwealth credit to be given or loaned to or in aid of any individual, or of any private association, or of any corporation, which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

The Commonwealth issues debt in a consolidated fashion. Therefore, specific debt is not issued for a specific project. This procedure is done to maximize efficiency in the capital markets.

### A. General Obligation Bonds

As of June 30, 2007, the Commonwealth had two types of long-term debt outstanding, general obligation bonds and special obligation bonds. The following is a summary of the Commonwealth's debt outstanding by type of debt:

|   | Amount<br>Outstanding (in thousands) |
|---|--------------------------------------|
| <b><u>General Obligation Debt:</u></b>                                  |                                      |
| General Obligation Bonds:   |                                      |
| Fixed rate.....   | \$ 11,935,636                        |
| Variable rate.....  | 3,488,600                            |
| Auction rate securities.....  | 401,500                              |
| College opportunity bonds.....  | 86,263                               |
| County debt assumed.....  | 450                                  |
| Grant anticipation notes (inclusive of cross-over refunding notes)..... | 1,665,620                            |
| Premium and issuance cost, general obligations.....                     | (89,858)                             |
| <b>Subtotal - General Obligation Debt.....</b>                          | <b>17,488,211</b>                    |
| <b><u>Special Obligation Debt:</u></b>                                  |                                      |
| Special Obligation Bonds (inclusive of cross-over refunding bonds):     |                                      |
| Fixed rate.....   | 1,077,861                            |
| Variable rate.....  | 183,080                              |
| <b>Subtotal - Special Obligation Debt.....</b>                          | <b>1,260,941</b>                     |
| Premium and issuance cost, special obligations.....                     | (12,191)                             |
| <b>Subtotal - Statutory Purposes Outstanding Debt.....</b>              | <b>18,736,961</b>                    |
| Unamortized premiums.....   | 102,043                              |
| <b>Subtotal - Governmental Activities Debt (exclusive of MSBA).....</b> | <b>18,839,004</b>                    |
| MSBA debt.....  | 4,187,296                            |
| <b>Governmental Outstanding Debt.....</b>                               | <b>\$ 23,026,300</b>                 |

General Obligation Bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and Commonwealth supported local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, from which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

In addition, forms of general obligation bonds are issued for specific programs approved by the Legislature. These are as follows:

***i. College Opportunity Bonds***

Some Commonwealth general obligation debt is issued in the form of College Opportunity Bonds (COBs) as authorized by the Massachusetts General Laws. These bonds are sold to fund the Commonwealth's "U. Plan" which is part of a college savings program administered by the Massachusetts Educational Financing Authority. These bonds are privately placed and are structured to meet the needs of investors in this plan. Such bonds were initially issued in fiscal year 1996, and have been issued in each subsequent fiscal year, including FY07, during which approximately \$10,112,000, (including accretion and interest), of such bonds were issued. Outstanding COBs of approximately \$86,263,000 have maturity dates ranging from FY08 through FY27. COBs have an accreting interest component payable at maturity. The annual accretion rate of each COB's maturity is a variable rate equal to the annual change in the Consumer Price Index (CPI) plus 2.0%. Assuming the CPI averages 3.5% during the life of the outstanding COBs the payments due at maturities of the COBs will total approximately \$165,235,000, including accretion. In addition, COBs pay current interest in the amount of 0.5% per year of the initial amount still outstanding.

***ii County Debt Assumed***

Chapter 38 of the Acts of 1997 and Chapter 300 of the Acts of 1998 abolished governments of several Massachusetts counties on various effective dates. As part of these provisions, the Commonwealth assumed the outstanding debt of Middlesex County on July 1, 1997, of Hampden and Worcester Counties on July 1, 1998, that of Essex County on July 1, 1999 and that of Berkshire County on July 1, 2000. The county debt assumed has become general obligation debt of the Commonwealth. As of June 30, 2007, \$450,000 of these obligations remain outstanding.

***iii Variable Rate Demand Bonds***

Included in the long-term debt is \$2,445,350,000 of general obligation variable rate demand bonds (VRDBs) maturing from 2008 through 2030 in varying amounts, of which \$1,819,760,000 is swapped to fixed rates. The redemption schedule for these bonds is included in the bond redemption schedule contained herein. The interest rate on the VRDBs is determined either weekly or daily based on the activity of the Commonwealth's remarketing agents, and interest is paid monthly. On any reset date, holders of the VRDBs can require the Commonwealth (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any repurchased bonds by adjusting the interest rates offered. The Commonwealth pays an annual fee to the remarketing agents equal to 0.05% of the outstanding par amount of the bonds.

Under the provisions of stand-by bond-purchase agreements entered into by the Commonwealth with certain commercial banks, the remarketing and tender agents are entitled to draw amounts sufficient to pay the purchase price of any bonds that cannot be resold.

During any such period, the Commonwealth is required to pay the bank(s) at an interest rate based on their respective prime lending rates. If the remarketing agent is unable to resell any put bonds within six months of the put date, the stand-by bond-purchase agreements include provisions to convert any such bonds to installment loans payable over an extended period of time, with interest payable at a rate based on the bank(s) prime lending rate(s). The stand-by bond-purchase agreements expire on various dates between December of 2007 and December 2015. The Commonwealth is required to renew or replace these agreements as long as the VRDBs remain outstanding.

As part of its refunding activities during FY03, the Commonwealth issued \$97,455,000 of refunding bonds which pay a variable rate interest that depends on changes in the Consumer Price Index (CPI). These bonds, which pay interest every six months, are not subject to periodic remarketing, nor do bondholders have the right to “put” such bonds back to the Commonwealth.

*iv. Other Variable Rate Bonds*

On June 29, 2004 as part of the Commonwealth’s issuance of the Convention and Exhibition Center Special Obligation Bonds, \$86,590,000 of such bonds were issued paying a variable rate of interest also indexed to changes in the CPI.

Similar to the 2003 Bonds, the Convention Center Bonds pay interest semiannually, but mature serially from FY15 to FY18.

During FY07, as part of Series 2006C General Obligation Refunding Bonds, the Commonwealth sold \$172,975,000 of bonds at par, including \$100,000,000 of noncallable CPI bonds maturing in FY18, FY19, FY20 and FY21. These bonds are subject to the same provisions of previous CPI bonds and have a spread to CPI ranging from 0.86% for the FY18 maturities to 0.89% for the FY21 bonds.

Also during FY07, as part of the Series 2007A General Obligation Bonds with a par of \$498,565,000, included are \$400,000,000 of LIBOR index bonds term issues maturing in FY37. The LIBOR index bonds were insured in two separate insured tranches. The bonds pay interest quarterly beginning August 1, 2007 at a rate of 67% of the three month LIBOR rate plus 0.57%. These bonds have a redemption premium of 0.32% if they are called. At the same time, an interest rate swap was initiated, setting a synthetic fixed rate on these bonds of 4.42%.

The Commonwealth also sold \$553,135,000 of Series 2007A General Obligation Refunding Bonds, including \$445,795,000 of LIBOR index bonds, term issues maturing in FY19, FY21 and FY26. Similarly to the Series 2007A General Obligation Bonds, these bonds pay interest quarterly at 67% of the three month LIBOR rate, plus various spreads, commencing August 1, 2007. The FY19 bonds pay an additional 0.46%, the FY21 maturities pay an additional 0.21% and the FY26 bonds pay an additional 0.30% above 67% of the three month LIBOR rate. The Commonwealth also initiated an interest rate swap for these bonds, setting a synthetic fixed rate of 3.936% for the FY19 and FY21 bonds and 4.083% for the FY26 maturity.



Both issues of LIBOR index bonds are subject to an optional call in whole or in part by the Commonwealth. If called prior to the call date in FY17, the redemption price will equal 100% of the principal amount plus the fixed spread for LIBOR bonds of that maturity plus accrued interest to the date of redemption. After FY17, the redemption price is at par, plus accrued interest.

Part of the proceeds of the Series 2007A General Obligation Refunding Bonds were used to fund the Commonwealth's out year contract assistance obligations that were to be paid to the Massachusetts Convention Center Authority, the Foxborough Industrial Development Financing Authority and the Route 3 North Transportation Improvements Association. These obligations were not previously debts of the Commonwealth until appropriated. Therefore for financial reporting purposes, the bonds for these obligations are reported as new debt, however, bondholders may refer to them as refunding bonds.

As detailed in the variable rate debt schedule, these CPI based bonds all have been swapped to fixed rates ranging from 4.45% to 5.25%.

**v. Auction Rate Securities**

Also included in the long-term debt is \$401,500,000 of General Obligation Auction Rate Securities (ARS) maturing in varying amounts from 2020 through 2030. The interest rate payable on the bonds changes weekly as determined pursuant to specified auction procedures. Interest on the bonds is payable weekly. In the case of a failed auction (i.e., insufficient bids to clear the market) existing buyers may be required to hold their bonds with interest payable at a rate equal to a percentage of an ARS industry index, up to a maximum rate of 12.0%.

Subsequent to year end, the Commonwealth sold \$81,975,000 of Series D-1 and \$81,950,000 of Series D-2 auction rate securities, maturing in FY19. These bonds have similar provisions to the previously issued ARS.

**vi. MSBA Debt**

Also included in outstanding debt is \$4.0 billion of MSBA Dedicates Sales Tax Bonds sold in FY05 and FY07 for the purpose of funding ongoing and future school construction and renovation projects. Interest on the bonds range from 3% to 5% and is payable semiannually each August 15 and February 15, until maturity in FY37.

**B. Special Obligation Bonds**

The Commonwealth also issues special obligation revenue bonds as authorized by Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 2007, the Commonwealth had outstanding approximately \$1,260,941,000 of such special obligation bonds, exclusive of unamortized premium. These bonds are secured by a pledge of 6.86 cents of the 21 cent motor fuel excise tax imposed on gasoline.

The Commonwealth has three series' of crossover refunding bonds outstanding, two of which are special obligation bonds while the remaining series are grant anticipation notes. The escrows funded by crossover refunding bonds and related premiums are used only to secure the principal related to the crossover refunding portion. The interest related to these maturities is not secured by this escrow. Rather, it will be paid from the existing stream of motor fuel excise taxes (or in the case of the grant anticipation notes from either federal grants or appropriations.) Interest on a portion of the newly issued refunding bonds is paid from the proceeds of the escrow until the aforementioned prior bonds are called for redemption. This crossover refunding results in economic savings to the Commonwealth similar to a traditional refunding, but does not meet the accounting definition of a legal defeasance of debt, in which case the defeased

debt and the related escrow accounts would have been removed from outstanding debt. Accordingly, both the refunded debt and the refunding debt are reported in outstanding debt until such time as principal amounts are repaid. Similarly, the refunding escrows established with the proceeds from the refunding bonds are also recorded on the financial statements until such proceeds are expended for debt service. As of June 30, 2007, \$103,615,000 in special obligation crossover refundings remained outstanding, exclusive of the crossover refunded grant anticipation notes.

The remainder of unrefunded special obligation debt is attributable to the aforementioned gasoline tax bonds and other bonds that permanently financed the Commonwealth's convention and exhibition centers in Boston, Springfield and Worcester, which are secured by certain taxes collected related to those facilities.

**C. Federal Highway Grant Anticipation Notes**

The Commonwealth also issued Federal Highway GANs to finance current cash flow for the Central Artery/Tunnel Project in anticipation of future federal reimbursements. Section 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998, authorizes the Commonwealth to sell up to \$1,500,000,000 in GANs. Prior to FY2005, all GANs authorized were issued. All Federal Highway Construction reimbursements and reimbursements from the federal highway construction trust funds are pledged to the repayment of the GANs. These notes are secured by the pledge of Federal Highway construction reimbursements without a general obligation pledge. Under certain limited circumstances, a portion of the revenue from the Commonwealth's motor fuels excise tax may be used to pay debt service on the GANs.

In July of 2004, the Commonwealth sold \$408,015,000 of GANs crossover refunding notes, Series 2003A. As previously discussed, these notes are Special Obligations of the Commonwealth. The escrow funded by the notes was used to secure the principal related to \$418,340,000 of GANs, including related call premiums, in previously issued series callable on December 15, 2008 and 2010. Inclusive of the cross-over refunding notes, at June 30, 2007, the Commonwealth has approximately \$1,665,620,000 of GANs outstanding, including accreted interest on capital appreciation bonds with maturity dates ranging from 2008 to 2015, of which \$418,340,000 is related to the crossover refunding transaction.

**D. Interest Rate Swap Agreements**

The Commonwealth enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

*Objective of the Interest Rate Swap Agreements*

In connection with the issuance of variable rate refunding bonds in 1997, 1998, 2001, 2003, 2005, and 2007, the Commonwealth entered into interest rate swap agreements with certain counterparties. Additional swap agreements were initiated as part of the Convention Centers' permanent financing in FY04. The purpose of these agreements is to effectively fix the interest rate payable on the corresponding variable rate refunding bonds, and to achieve synthetic interest rates that are lower than the rate that could have been achieved on a natural fixed rate basis at the time the agreements were entered into.

*Terms of the Interest Rate Swap Agreements*

The bonds and related swap agreements have final maturities ranging from 2008 to 2037. The swaps' total notional value of \$3,046,090,000 matches the par

amount of the related variable rate refunding bonds. Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 2.925% to 5.25% and receives variable rate payments equal to the amount of variable rate payments the Commonwealth pays on the related variable rate refunding bonds.

The following chart details the Commonwealth's outstanding swaps and related bond issuances:

| Associated<br>Bond Issue   | Notional<br>Amounts<br>Outstanding<br>(thousands) | Effective<br>Date | Fixed Rate<br>Paid (Range) | Variable<br>Rate Received | Fair Market<br>Values<br>(thousands) | Final<br>Termination<br>Date | Counterparty<br>Credit Rating |
|--|---|-------------------|----------------------------|---------------------------|--------------------------------------|------------------------------|-------------------------------|
| <i>General Obligation Bonds:</i>   |   |                   |                            |                           |                                      |                              |                               |
| Series 1997B   | \$ 162,768  | 8/12/1997         | 4.659%                     | Cost of Funds             | \$ (7,524)                           | August 1, 2015               | AAA/Aaa                       |
| Series 1997B   | 108,512   | 8/12/1997         | 4.659%                     | Cost of Funds             | (4,774)                              | August 1, 2015               | AAA/Aaa                       |
| Series 1998A & B   | 299,712   | 9/17/1998         | 4.174%                     | Cost of Funds             | (7,918)                              | September 1, 2016            | AAA/Aaa                       |
| Series 1998A & B   | 199,808   | 9/17/1998         | 4.174%                     | Cost of Funds             | (4,487)                              | September 1, 2016            | AAA/Aaa                       |
| Series 2001B & C   | 496,225   | 2/20/2001         | 4.150%                     | Cost of Funds             | (5,402)                              | January 1, 2021              | AAA/Aaa                       |
| Series 2003B   | 87,455  | 3/12/2003         | 4.500%                     | Cost of Funds/CPI         | 600                                  | March 1, 2014                | AAA/Aaa                       |
| Series 2003B   | 10,000  | 3/12/2003         | 4.500%                     | Cost of Funds/CPI         | 83                                   | March 1, 2013                | A+/A1                         |
| Series 2005A   | 552,735   | 3/29/2005         | 2.925%-4.00%               | SIFMA                     | 12,671                               | February 1, 2028             | AA+/Aaa                       |
| Series 2006C   | 100,000   | 11/29/2006        | 3.73%-3.85%                | Cost of Funds/CPI         | 347                                  | November 1, 2020             | AA+/Aaa                       |
| Series 2007A   | 400,000   | 5/30/2007         | 4.420%                     | LIBOR                     | 8,000                                | May 1, 2037                  | A+/A1                         |
| Series 2007A<br>(refunding)  | <u>445,795</u>                                    | 5/30/2007         | 3.963% - 4.083%            | LIBOR                     | <u>11,836</u>                        | November 2, 2025             | A+/A1                         |
| Subtotal   | <u>2,863,010</u>                                  |                   |                            |                           | <u>3,432</u>                         |                              |                               |
| <i>Special Obligation Dedicated Tax Revenue Bonds (CPI Based Swaps):</i> |   |                   |                            |                           |                                      |                              |                               |
| Series 2004  | 28,863  | 6/29/2004         | 4.45% - 5.25%              | Cost of Funds/CPI         | (1,338)                              | January 1, 2018              | AA/Aaa                        |
| Series 2004  | 28,863  | 6/29/2004         | 4.45% - 5.25%              | Cost of Funds/CPI         | (1,397)                              | January 1, 2018              | AA-/Aa3                       |
| Series 2004  | 28,864  | 6/29/2004         | 4.45% - 5.25%              | Cost of Funds/CPI         | (1,190)                              | January 1, 2018              | A+/A1                         |
| Series 2005A   | <u>96,490</u>                                     | 6/12/2005         | 4.771% - 5.06%             | Cost of Funds/CPI         | <u>(2,901)</u>                       | June 1, 2022                 | AA-/Aa3                       |
| Subtotal   | <u>183,080</u>                                    |                   |                            |                           | <u>(6,826)</u>                       |                              |                               |
| Total  | <u>\$ 3,046,090</u>                               |                   |                            |                           | <u>\$ (3,394)</u>                    |                              |                               |

#### *Fair Market Value of the Interest Rate Swap Agreements*

Swap rates for the types and remaining terms of the Commonwealth's swap agreements are generally lower (as of June 30, 2007) than those that prevailed when the various swap contracts were entered into. This is the result of two factors: (1) lower interest rates in general; and (2) the shortening of the remaining terms of the swap contracts due to the passage of time and an upward sloping yield curve for such instruments. As a result, the Commonwealth's swap agreements have an estimated fair market value of negative \$3,394,000 as of June 30, 2007. If all the Commonwealth's swap agreements had been terminated as of the end of fiscal year 2007 the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the magnitude estimated if certain termination events occurred, as described below.

#### *Credit Risk of the Interest Rate Swap Agreements*

The Commonwealth is subject to the risk that the credit of the counterparty could deteriorate, which may effect the counterparties' ability to make payments, if required, under the swaps. In the event of a decline in the credit quality of the

counterparties, the Commonwealth may choose to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain a certain credit rating under the agreements, generally in the “A” category. If the Commonwealth’s rating fell below those levels, the Commonwealth’s counterparties could choose to make variable rate payments based on a market index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as noted below.

*Basis, Market and Rollover Risk of the Interest Rate Swap Agreements*

Because the terms on the interest rate swap agreements require the Commonwealth’s counterparties to make variable rate payments equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not generally subject to any basis or market risk as a result of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds or the enactment of tax-related legislation which causes the related bonds to trade differently, the swap agreements provide that the Commonwealth’s counterparties, may, at their option, pay a variable rate that is based on one or more market indices such as LIBOR or the SIFMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indices varied significantly from the variable rates that were determined for the Commonwealth’s variable rate demand bonds through the associated remarketing process.

The swap contracts have the same maturity dates and amortizations as the related bonds. Therefore, the Commonwealth is not subject to any rollover risk as a result of these agreements.

*Termination Risk of the Interest Rate Swap Agreements*

The swap contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements are not otherwise subject to termination except at the Commonwealth’s option. If one or more of the swap agreements were terminated, then related variable rate bonds would no longer be hedged and the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps’ fair market values.

**E. Outstanding Swapped Debt**

Debt service on the swapped variable rate bonds is as follows (assuming a short term rate of 3.50% and a CPI rate of 3%). Negative amounts represent a net benefit to the Commonwealth based on current rates. (amounts in thousands):

| Fiscal Year<br>Ending June 30 | Variable-Rate Bonds |              | Interest Rate<br>Swaps, Net | Total        |
|-------------------------------|---------------------|--------------|-----------------------------|--------------|
|                               | Principal           | Interest     |                             |              |
| 2008                          | \$ 6,190            | \$ 126,164   | \$ 2,657                    | \$ 135,011   |
| 2009                          | 12,030              | 125,857      | 2,661                       | 140,548      |
| 2010                          | 34,545              | 124,785      | 2,529                       | 161,859      |
| 2011                          | 22,265              | 123,900      | 2,400                       | 148,565      |
| 2012                          | 119,445             | 120,418      | 1,553                       | 241,416      |
| 2013-2017                     | 1,062,615           | 507,633      | (18,518)                    | 1,551,730    |
| 2018-2022                     | 758,895             | 341,130      | (49,146)                    | 1,050,879    |
| 2023-2027                     | 629,175             | 200,579      | (46,607)                    | 783,147      |
| 2028-2032                     | 930                 | 145,702      | (32,997)                    | 113,635      |
| 2033-2037                     | 400,000             | 109,260      | (29,700)                    | 479,560      |
| Total                         | \$ 3,046,090        | \$ 1,925,428 | \$ (165,168)                | \$ 4,806,350 |

**Business - Type Activities – Swapped Debt**

During FY07, Bunker Hill Community College entered into a swap agreement with the issuance of \$8 million of variable rate bonds that mature in FY35. The swap effectively fixed the rate of its bonds to FY35 at 4.18%. At June 30, 2007, the swap had a fair value liability of approximately \$9,000 in comparison to SIFMA. The University system also has various swaps through bonds issued by the University of Massachusetts Building Authority. The Building Authority's financial statements have complete details on the University's swap activity.

**F. Outstanding Long Term Debt and Changes in Long Term Debt**

For financial reporting purposes, long-term debt is carried at its face value. Unamortized discounts and premiums are shown separately. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid.

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Only the net proceeds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

Long-term debt outstanding (including unamortized premiums, discounts and issuance cost) and debt authorized and unissued at June 30, 2007 is as follows (amounts in thousands):

| Purpose  | Bonds<br>Outstanding | Fiscal Year<br>Maturities | Authorized and<br>Unissued |
|--|----------------------|---------------------------|----------------------------|
| GANs.....  | \$ 1,665,620         | 2008-2015                 | \$ -                       |
| Capital Projects:  |                      |                           |                            |
| General.....   | 6,130,379            | 2008-2031                 | 4,607,051                  |
| Highway.....   | 8,373,702            | 2008-2034                 | 3,606,180                  |
| Local Aid.....   | 1,924,164            | 2008-2031                 | 56,893                     |
| Other.....   | 643,096              | 2008-2029                 | 78,867                     |
|  | 17,071,341           |                           | 8,348,991                  |
| Total statutory debt.....  | \$ 18,736,961        |                           | \$ 8,348,991               |
| Bonds premium.....   | 102,043              |                           |                            |
| Subtotal - Governmental activities debt (exclusive of MSBA)..... | \$ 18,839,004        |                           |                            |
| MSBA Debt.....   | 4,187,296            |                           |                            |
| Governmental activities debt.....                                | \$ 23,026,300        |                           |                            |

Interest rates on the Commonwealth's debt outstanding at the end of FY07 ranged from 0.0% to 8.0%.

Changes in long-term debt outstanding (including discount and issuance cost) and bonds authorized - unissued for the year ended June 30, 2007 are as follows (amounts in thousands):

|                                     | Governmental Funds |              | Governmental  | Authorized   |
|-------------------------------------|--------------------|--------------|---------------|--------------|
|                                     | Debt - Primary     |              | Funds         | Unissued     |
|                                     | Government         | MSBA         | Bonded Debt   |              |
| Balance July 1, 2006.....           | \$ 18,461,406      | \$ 2,667,414 | \$ 21,128,820 | \$ 7,668,331 |
| General obligation bonds:           |                    |              |               |              |
| Principal, less discount .....      | 1,603,940          | -            | 1,603,940     | (1,603,940)  |
| Net premium .....                   | (47,455)           | -            | (47,455)      | -            |
| General obligation refunding bonds: |                    |              |               |              |
| Principal on refunding bonds.....   | 1,427,835          | -            | 1,427,835     | -            |
| Principal on refunded bonds.....    | (1,520,290)        | -            | (1,520,290)   | -            |
| Bonds retired.....                  | (1,188,475)        | (49,250)     | (1,237,725)   | -            |
| Increase in bonds authorized.....   | -                  | -            | -             | 2,284,600    |
| Statutory Debt June 30, 2007.....   | 18,736,961         | 2,618,164    | 21,355,125    | \$ 8,348,991 |
| Unamortized premiums.....           | 102,043            | -            | 102,043       |              |
| MSBA debt issued.....               | -                  | 1,500,000    | 1,500,000     |              |
| MSBA bond premium.....              | -                  | 69,132       | 69,132        |              |
| Outstanding Debt June 30, 2007..... | \$ 18,839,004      | \$ 4,187,296 | \$ 23,026,300 |              |

\* Includes unallocated proceeds of approximately \$5,000.

#### *Business - Type Activities – Colleges and University Debt*

Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$200,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as participants in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

At June 30, 2007, debt service requirements to maturity for principal (including unamortized discount, capital appreciation and issuance costs) and interest including all variable rate interest not hedged by swap agreements (assumed interest rate is 5%) are as follows (amounts in thousands):

| Fiscal<br>Year<br>Ended<br>June 30 | Governmental Activities |                     |                     |                     | Business - Type Activities |                   |
|------------------------------------|-------------------------|---------------------|---------------------|---------------------|----------------------------|-------------------|
|                                    | General Obligation      |                     | MSBA Debt           |                     | Revenue Obligation         |                   |
|                                    | Principal               | Interest            | Principal           | Interest            | Principal                  | Interest          |
| 2008.....                          | \$ 1,186,151            | \$ 920,036          | \$ 60,586           | \$ 182,005          | \$ 55,470                  | \$ 69,915         |
| 2009.....                          | 1,212,450               | 864,964             | 69,355              | 188,008             | 52,553                     | 67,943            |
| 2010.....                          | 1,178,462               | 803,521             | 72,615              | 185,125             | 54,932                     | 65,794            |
| 2011.....                          | 1,251,736               | 739,876             | 73,145              | 181,995             | 58,136                     | 63,421            |
| 2012.....                          | 1,149,882               | 673,817             | 76,505              | 178,636             | 59,816                     | 60,858            |
| 2013 - 2017.....                   | 5,431,018               | 2,384,834           | 445,060             | 833,732             | 323,400                    | 259,627           |
| 2018 - 2022.....                   | 3,799,886               | 1,377,911           | 564,665             | 710,659             | 336,106                    | 196,430           |
| 2023 - 2027.....                   | 2,335,237               | 561,199             | 724,460             | 550,867             | 290,792                    | 144,659           |
| 2028 - 2032.....                   | 967,090                 | 180,910             | 1,048,080           | 334,171             | 251,146                    | 86,094            |
| 2033 - 2037.....                   | 225,049                 | 26,379              | 565,575             | 135,554             | 87,363                     | 25,742            |
| 2038 - 2042.....                   | -                       | -                   | 250,704             | 6,504               | 42,249                     | 11,187            |
| 2043 - 2047.....                   | -                       | -                   | -                   | -                   | 12,655                     | 2,822             |
| Total long - term debt ..          | 18,736,961              | 8,533,447           | 3,950,750           | 3,487,256           | 1,624,618                  | 1,054,492         |
| Bond Premium.....                  | 102,043                 | -                   | 236,546             | -                   | -                          | -                 |
| Subtotal.....                      | 18,839,004              | 8,533,447           | 4,187,296           | 3,487,256           | 1,624,618                  | 1,054,492         |
| Less: Current Portion ..           | (1,186,151)             | (920,036)           | (60,586)            | (182,005)           | (55,470)                   | (69,915)          |
| Long - term debt .....             | <u>\$ 17,652,853</u>    | <u>\$ 7,613,411</u> | <u>\$ 4,126,710</u> | <u>\$ 3,305,251</u> | <u>\$ 1,569,148</u>        | <u>\$ 984,577</u> |

**G. Bonds Defeased  
Through Refunding**

As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation bonds through the issuance of \$1,427,835,000 of general obligation refunding bonds during FY07. Net proceeds, including premiums, but after issuance costs totaled approximately \$1,575,767,000 which were used to purchase U. S. Government and U.S. Agency securities, which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liabilities therefore have been removed from outstanding debt. As a result of these refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$133,952,000 until FY27 and will experience an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$64,805,000. These economic gains are not recognized on a statutory basis. At June 30, 2007, approximately all of the bonds defeased and refunded during FY07 remain outstanding. Also included are \$211,240,000 of refunding bonds that were cash defeased in FY07 from two series. These bonds are escrowed to maturities in FY15 through FY17.



**H. Prior Defeasance**

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. With the exception of the crossover refunding activity discussed previously, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2007, approximately \$7,194,109,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

**I. Statutory Debt Limit**

The Massachusetts General Laws establish limits on the amount of direct debt outstanding, that is different from GAAP due to the treatment of premiums and discounts. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY07 was approximately \$14,843,547,000. Outstanding debt subject to the limit at June 30, 2007 was approximately \$13,132,895,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds, which is defined as face amount, plus premiums, but excluding issuance costs. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

|                                   | <u>Debt Outstanding</u> |
|-----------------------------------|-------------------------|
| Statutory debt June 30, 2007..... | \$ 18,736,961           |
| Less amounts excluded:            |                         |
| Premium and issuance cost.....    | 102,043                 |
| Special Obligation principal..... | (1,260,941)             |
| GANs principal.....               | (1,666,690)             |
| County Debt Assumed.....          | (450)                   |
| MBTA Forward Funding.....         | (368,873)               |
| SMART bonds.....                  | (946,285)               |
| Central Artery / Tunnel.....      | (1,462,870)             |
| Outstanding direct debt.....      | <u>\$ 13,132,895</u>    |

**J. Changes in Long – Term Liabilities**

The following table summarizes changes in long -term liabilities for both governmental activities and business-type activities (amounts in thousands):

| <i>Changes in Long Term Liabilities - Governmental Activities</i>      | Beginning<br>Balance | Additions            | Deletions            | Ending<br>Balance    | Due Within<br>One Year |
|--|----------------------|----------------------|----------------------|----------------------|------------------------|
| Description  |                      |                      |                      |                      |                        |
| Tax refunds and abatements payable.....                                | \$ 854,486           | \$ 815,107           | \$ 854,486           | \$ 815,107           | \$ 766,107             |
| Accrued liabilities:   |                      |                      |                      |                      |                        |
| Compensated absences.....  | \$ 421,832           | 443,952              | 421,832              | \$ 443,952           | 277,590                |
| Claims and judgments.....  | 195,200              | 186,500              | 195,200              | 186,500              | 54,200                 |
| Prizes payable.....  | 1,429,952            | 1,411,814            | 1,429,952            | 1,411,814            | -                      |
| Due to component units - Central Artery / Tunnel Project.....          | 11,326,475           | 928,226              | 5,256,524            | 6,998,177            | -                      |
| Due to non -component units - Central Artery / Tunnel Project.....     | 365,000              | -                    | -                    | 365,000              | -                      |
| School construction grants payable.....                                | 6,257,568            | 20,883               | 1,798,205            | 4,480,246            | 1,014,286              |
| Contract assistance payable.....                                       | 343,336              | 89,015               | 343,336              | 89,015               | -                      |
| Teachers' retirement system pension obligation.....                    | 264,138              | 282,430              | 264,138              | 282,430              | -                      |
| Boston Teachers' retirement system net pension obligation.....         | 129,697              | -                    | 129,697              | -                    | -                      |
| Other liabilities.....   | 3,329,721            | 33,771,346           | 33,503,841           | 3,597,226            | 3,312,778              |
| Total Accrued Liabilities.....   | \$ 24,062,919        | \$ 37,134,166        | \$ 43,342,725        | \$ 17,854,360        | \$ 4,658,854           |
| Bonded Debt:   |                      |                      |                      |                      |                        |
| Bonds and notes payable - non MSBA.....                                | \$ 18,486,506        | \$ 2,984,321         | \$ 2,733,866         | \$ 18,736,961        | \$ 1,186,151           |
| MSBA Bonds and notes payable.....                                      | 2,556,177            | 1,955,000            | 49,250               | 4,461,927            | 506,145                |
| Deferred inflows of resources:   |                      |                      |                      |                      |                        |
| Unamortized bond and note premiums - non MSBA.....                     | -                    | 102,043              | -                    | 102,043              | -                      |
| Unamortized bond and note premiums - MSBA.....                         | 111,237              | 69,132               | -                    | 180,369              | 9,441                  |
| Other financing arrangements:  |                      |                      |                      |                      |                        |
| Capital leases.....  | 74,552               | 378,938              | 74,552               | 378,938              | 41,647                 |
| Total Bonded Debt and Other financing arrangements.....                | \$ 21,228,472        | \$ 5,489,434         | \$ 2,857,668         | \$ 23,860,238        | \$ 1,743,384           |
| <b>Total Long-term liabilities, Governmental activities.....</b>       | <b>\$ 46,145,877</b> | <b>\$ 43,438,707</b> | <b>\$ 47,054,879</b> | <b>\$ 42,529,705</b> | <b>\$ 7,168,345</b>    |
| <i>Changes in Long Term Liabilities - Business - Type Activities:*</i> |                      |                      |                      |                      |                        |
| Description  | Beginning<br>Balance | Additions            | Deletions            | Ending<br>Balance    | Due Within<br>One Year |
| Accrued liabilities:   |                      |                      |                      |                      |                        |
| Compensated absences.....  | \$ 154,340           | \$ 30,143            | \$ 22,990            | \$ 161,493           | 107,649                |
| Total Accrued Liabilities.....   | \$ 154,340           | \$ 30,143            | \$ 22,990            | \$ 161,493           | \$ 107,649             |
| Bonded Debt:   |                      |                      |                      |                      |                        |
| Bonds and notes payable - Schools.....                                 | \$ 1,043,301         | \$ 247,461           | \$ 136,354           | \$ 1,154,408         | \$ 44,667              |
| Bonds and notes payable - Foundations.....                             | 3,772                | 2,942                | 246                  | 6,468                | 754                    |
| Bonds and notes payable - MSCBA.....                                   | 472,654              | -                    | 8,913                | 463,741              | 10,049                 |
| Bonds and notes payable.....   | \$ 1,519,727         | \$ 250,403           | \$ 145,513           | \$ 1,624,617         | \$ 55,470              |
| Other financing arrangements:  |                      |                      |                      |                      |                        |
| Capital leases.....  | 87,798               | 15,372               | 19,727               | 83,443               | 19,311                 |
| Total Bonded Debt and Other financing arrangements.....                | \$ 1,607,525         | \$ 265,775           | \$ 165,240           | \$ 1,708,060         | \$ 74,781              |
| <b>Total Long-term liabilities, Business - type activities.....</b>    | <b>\$ 1,761,865</b>  | <b>\$ 295,918</b>    | <b>\$ 188,230</b>    | <b>\$ 1,869,553</b>  | <b>\$ 182,430</b>      |

\* Exclusive of deferrals and amounts due to the federal government totalling \$17,096,000 and \$10,191,000, respectively.

**Discretely Presented Component Units** – Bonds and notes outstanding at June 30, 2007 (December 31, 2006 for MTA), net of unamortized discounts and premiums, along with unamortized losses on refundings of approximately \$58,220,000, are as follows (amounts in thousands):

| <b>Discretely Presented Component Units</b> |               |           | July 1, 2006<br>Beginning<br>Balance | Increases    | Decreases    | June 30, 2007<br>Ending<br>Balance | Due<br>Within<br>One Year | Long Term     |
|---|---------------|-----------|--------------------------------------|--------------|--------------|------------------------------------|---------------------------|---------------|
| Major component units:                      |               |           |                                      |              |              |                                    |                           |               |
| MBTA .....                                  | 2.00 - 6.00%  | 2008-2038 | \$ 5,158,683                         | \$ 775,899   | \$ 790,455   | \$ 5,144,127                       | \$ 137,215                | \$ 5,006,912  |
| MTA .....                                   | 3.90 - 5.65%  | 2008-2040 | 2,359,949                            | -            | 15,339       | 2,344,610                          | 20,555                    | 2,324,055     |
| MWPAT .....                                 | 2.00 - 6.375% | 2008-2033 | 2,804,158                            | 880,623      | 591,626      | 3,093,155                          | 139,393                   | 2,953,762     |
| Nonmajor component units .....              | 1.00 - 9.01%  | 2008-2034 | 924,239                              | 32,502       | 93,255       | 863,486                            | 25,418                    | 838,068       |
| Total bonds and notes payable .....         |               |           | 11,247,029                           | 1,689,024    | 1,490,675    | 11,445,378                         | 322,581                   | 11,122,797    |
| Compensated absences, net .....             |               |           | 27,999                               | 19,024       | 17,411       | 29,612                             | 21,364                    | 8,248         |
| Total long term liabilities .....           |               |           | \$ 11,275,028                        | \$ 1,708,048 | \$ 1,508,086 | \$ 11,474,990                      | \$ 343,945                | \$ 11,131,045 |

The amounts below represent the gross face amounts of bonds and notes outstanding and may differ from the amounts included in the statement of net assets due to treatment of original issue discount in the financial statements. Maturities of principal and interest are as follows (as of December 31, 2006 for MTA) (amounts in thousands):

| Fiscal Years         | MBTA         |              | MTA          |              | MWPAT        |              | Nonmajor<br>Component Units |            | Total         |              |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------------------|------------|---------------|--------------|
|                      | Principal    | Interest     | Principal    | Interest     | Principal    | Interest     | Principal                   | Interest   | Principal     | Interest     |
| 2008.....            | \$ 137,215   | \$ 257,385   | \$ 20,555    | \$ 115,927   | \$ 139,393   | \$ 146,930   | \$ 28,471                   | \$ 41,849  | \$ 325,634    | \$ 562,091   |
| 2009.....            | 147,655      | 253,222      | 21,620       | 114,770      | 142,574      | 138,361      | 20,083                      | 40,623     | 331,932       | 546,976      |
| 2010.....            | 177,995      | 244,708      | 49,235       | 112,224      | 147,880      | 131,924      | 26,415                      | 39,700     | 401,525       | 528,556      |
| 2011.....            | 181,905      | 235,037      | 49,860       | 10,645       | 151,055      | 125,200      | 21,269                      | 38,301     | 404,089       | 409,183      |
| 2012.....            | 186,705      | 224,540      | 52,615       | 106,917      | 153,012      | 118,307      | 40,693                      | 37,326     | 433,025       | 487,090      |
| 2013 - 2017.....     | 1,059,755    | 954,595      | 189,771      | 515,856      | 798,423      | 479,848      | 276,394                     | 264,732    | 2,324,343     | 2,215,031    |
| 2018 - 2022.....     | 1,114,795    | 674,593      | 365,502      | 564,198      | 721,675      | 273,823      | 126,312                     | 93,722     | 2,328,284     | 1,606,336    |
| 2023 - 2027.....     | 984,963      | 446,886      | 239,917      | 497,454      | 471,495      | 119,823      | 190,426                     | 55,118     | 1,886,801     | 1,119,281    |
| 2028 - 2032.....     | 764,763      | 233,279      | 310,718      | 418,555      | 191,890      | 43,043       | 111,150                     | 21,332     | 1,378,521     | 716,209      |
| 2033 - 2037.....     | 318,502      | 106,058      | 137,945      | 176,477      | 87,250       | 7,574        | 25,520                      | 1,155      | 569,217       | 291,264      |
| 2038 - 2039.....     | 5,147        | 16,443       | 998,640      | 21,522       | -            | -            | -                           | -          | 1,003,787     | 37,965       |
|                      | 5,079,400    | 3,646,746    | 2,436,378    | 2,654,545    | 3,004,647    | 1,584,833    | 866,733                     | 633,858    | 11,387,158    | 8,519,982    |
| Less current portion | (137,215)    | (257,385)    | (20,555)     | (115,927)    | (139,393)    | (146,930)    | (28,471)                    | (41,849)   | (325,634)     | (562,091)    |
| Long - term debt.... | \$ 4,942,185 | \$ 3,389,361 | \$ 2,415,823 | \$ 2,538,618 | \$ 2,865,254 | \$ 1,437,903 | \$ 838,262                  | \$ 592,009 | \$ 11,061,524 | \$ 7,957,891 |

In prior years, the MBTA defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2007, approximately \$1,826,515,000 of these bonds outstanding are considered defeased. Other refunding activity is reported in the MBTA's notes to financial statements. In addition, the MTA has approximately \$286,020,000 of bonds outstanding as of December 31, 2006 that are considered defeased.

In FY06 and prior years, the MWPAT defeased in-substance ten series' of Loan Program Bonds similarly to the MBTA. On June 30, 2007, approximately \$1,021,350,000 of these bonds outstanding are considered defeased.

*Interest Rate Swap Agreements – Discretely Presented Component Units*

The MBTA has entered into interest rate swaps and swaptions (referred to herein collectively as Swaps) in order to lower its cost of capital, protect against rising interest rates, lock in rate savings and to realize refinancing savings according to schedules that suit the Component Units' needs. When the Component Unit has entered into Swaps, it has done so in order to: (1) provide lower costs fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long – term fixed rate returns on invested assets in its required reserve funds; and (3) create synthetic refinancing with cash flow savings realized as the Component Unit designates.

*Summary of Swap Transactions by Category – Synthetic Fixed Rate Swap Transactions*

From FY03 through FY07, the MBTA executed swap agreements associated with particular series' of bonds. On one of the agreements, the MBTA will receive a \$4,586,000 payment from the counterparty, due in FY08. the total notional amounts are approximately \$325 million, with termination dates ranging from 2020 to 2030. Fixed payable swap rates are 4.13% to 5.20% with variable receivable swap rates ranging from 67% of LIBOR, BMA and CPI + 79 to 123 basis points. Counterparty ratings range from A1 to Aaa/AAA. The aggregated fair value appreciation / (depreciation) as of June 30, 2007 was (\$31,120.)

*Swap Payments and Associated Debt*

As of June 30, 2007, debt service requirements on the various bond issuances of the MBTA that have swap payments applied to them were calculated by applying fixed rates ranging from 4.13% to 5.2% and assuming the 67% of the Libor rate was 3.58%, variable rate of 3.96%, using BMA and 2.33% plus 79 to 123 basis points for the CPI – based bonds. Debt service related to these swaps is as follows (amounts in thousands):

| <u>Fiscal Year<br/>Ending June 30,</u> | <u>Variable - Rate Bonds</u> |                   | <u>Interest<br/>Rate Swap,</u> | <u>Total</u>      |
|--|------------------------------|-------------------|--------------------------------|-------------------|
|  | <u>Principal</u>             | <u>Interest</u>   | <u>Net</u>                     |                   |
| 2008 .....                             | \$ -                         | \$ 12,621         | \$ 3,255                       | \$ 15,876         |
| 2009 .....                             | -                            | 12,621            | 3,255                          | 15,876            |
| 2010 .....                             | -                            | 12,621            | 3,255                          | 15,876            |
| 2011 .....                             | -                            | 12,621            | 3,255                          | 15,876            |
| 2012 .....                             | 2,335                        | 12,592            | 3,244                          | 18,171            |
| 2013 - 2017 .....                      | 65,180                       | 57,349            | 14,018                         | 136,547           |
| 2018 - 2022 .....                      | 123,085                      | 40,370            | 9,377                          | 172,832           |
| 2023 - 2027 .....                      | 86,035                       | 17,976            | 5,188                          | 109,199           |
| 2028 - 2032 .....                      | 48,435                       | 3,068             | 1,190                          | 52,693            |
| Total                                  | <u>\$ 325,070</u>            | <u>\$ 181,839</u> | <u>\$ 46,037</u>               | <u>\$ 552,946</u> |

*Swaptions for Forward Refundings*

In addition, the MBTA has three swaptions generally exercisable from September 2009 through July, 2030 on its variable rate general transportation system bonds. The swaptions are summarized as follows:

| <u>Date of Execution</u>       | <u>Notional Amount</u> | <u>Lump - Sum Payment From Counterparty</u> | <u>Counterparty Option Exercise Dates</u>                                 | <u>Term of Swap</u> | <u>Associated Bonds</u>  | <u>Fixed Payable Swap Rate</u> | <u>Variable Receivable Swap Rate</u> | <u>Counterparty Credit Rating as of June 30, 2007</u> | <u>Fair Value at June 30, 2007</u> |
|--------------------------------|------------------------|---|---|---------------------|--|--------------------------------|--------------------------------------|---|------------------------------------|
| December 2001                  | \$ 79,645              | \$4,140 (August 2005)                       | Each March and September from 2009 through and including 2011             | 2030                | GTS Bonds, 1999 Series A maturing 2026 and 2030                  | 5.610%                         | BMA                                  | Aaa / AAA   | <u>\$ (10,414)</u>                 |
| <i>Forward starting swaps:</i> |                        |   |   |                     |  |                                |                                      |   |                                    |
| June 2005                      | \$ 47,055              | N/A   | Forward swap, effective commencing April 3, 2010 through July 1, 2030     | 2030                | 2000 Series A Assessment Bonds                                   | 4.130%                         | BMA                                  | Aaa / AA+   | \$ 587                             |
| November 2006                  | \$ 131,910             | N/A   | Forward swap, effective commencing February 28, 2008 through July 1, 2021 | 2030                | GTS Bonds 1998 Series A maturing 2016, 2017, 2018, and term 2021 | 3.830%                         | BMA                                  | A1 / A+   | <u>2,287</u>                       |
|                                |                        |   |   |                     |  |                                |                                      |   | <u>\$ 2,874</u>                    |

*Asset-Side Swaption for Reserve Investment*

| <u>Date of Execution</u> | <u>Notional Amount</u> | <u>Lump - Sum Payment From Counterparty</u> | <u>Counterparty Option Exercise Dates</u>                 | <u>Term of Swap</u> | <u>Associated Bonds</u>   | <u>Fixed Payable Swap Rate</u> | <u>Variable Receivable Swap Rate</u> | <u>Counterparty Credit Rating as of June 30, 2007</u> | <u>Fair Value at June 30, 2007</u> |
|--------------------------|------------------------|---|---|---------------------|---|--------------------------------|--------------------------------------|---|------------------------------------|
| December 2000            | \$ 49,123              | N/A   | January 1st and July 1st from July 2010 through July 2030 | 2030                | Debt Service Reserve Fund for 2000 Assessment and Sales Tax Bonds | 5.600%                         | BMA                                  | Aaa / AA+   | \$ (1,545)                         |

*Fuel Hedges*

The MBTA has two fuel hedges outstanding as of June 30, 2007 that terminate on June 30, 2008. The aggregate notional amount is 9,214,784 gallons with prices from \$1.76 - \$1.775 per gallon. Counterparty ratings were Aa3 / A+. Trade dates were 1/5/07 and 1/10/07. Prices are sourced at Nymex Heating Oil first nearby.

*Credit Risk*

Because all of the MBTA's swaps rely upon the performance of third parties who serve as swap counterparties, both are exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps. All fair values have been calculated using the Mark to Market or Par

Value Method. To mitigate credit risk, the MBTA maintains strict credit standards for swap counterparties. For the MBTA, all swap counterparties for both Moody's and Standard & Poors rate longer-term swaps are in the "AA" category. To further mitigate credit risk, the MBTA's swap documents require counterparties to post collateral for the MBTA's benefit if they are downgraded below a designated threshold.

#### *Basis Risk*

The MBTA is exposed to basis risk if the relationship between the floating index the MBTA receives on the swaps (BMA, CPI plus 79 basis points, or 67% of LIBOR) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized.

#### *Termination Risk*

The MBTA's swap agreements do not contain any out of the ordinary events that would expose them to significant termination risk. In keeping with market standards, all parties may terminate each swap if the other party fails to perform under the terms of the contract. In addition the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The MBTA views such events to be remote. If at the time of the termination a swap has a negative value, the MBTA would be liable to the counterparty for a payment equal to the fair value of each swap.

#### *Rollover Risk*

The MBTA's variable rate bonds are exposed to rollover risk because the swap for the bonds terminates prior to maturity of the bonds. Upon termination of the swap, the MBTA will no longer realize the synthetic rate on the bonds and will be exposed to floating rate risk on the underlying bonds if no new hedge is put in place.

#### *Market Access Risk and Potential Basis Risk*

In the case of the swaptions, if any option is exercised and refunding bonds are not issued, the bonds expected to be refunded would not be refunded and the MBTA would make net swap payments as required by the terms of each contract. If any of the options are exercised, the actual savings ultimately recognized by the transactions will be affected by the relationship between the interest rate terms of the variable rate bonds versus the variable payment on the swap.

#### *MWPAT Interest Rate Swap Forward Agreement*

During FY07, the MWPAT entered into an interest rate swap forward agreement with a notional amount of \$194,825,000. the objective of the swap is to hedge market risk associated with the current refunding of \$185,450,000 in bonds sold in 1999 that are callable in FY10. If these bonds were available to be refunded with fixed-rate bonds on the date of the swap, the MWPAT would have been able to reduce its overall debt service by \$12 million or .5% on a net present value basis. Legally, however, these bonds cannot be advance refunded and can only be refunded on their call date. The interest rate swap hedges market risk until the call date, locking-in net present value savings of 5.6% if cash settled, or 7% if executed. The effective date is August 1, 2029. Otherwise the swap terminates on the effective date. If the swap is executed by the MWPAT on the

effective date, the MWPAT will pay the counterparty a fixed rate of 4.102% and will receive a variable payment of SIFMA. As of June 30, 2007, the fair market value of the swap is positive approximately \$1,011,000. The swap counterparty was rated as of June 30, 2007 at AA-/Aa3/AA-. To mitigate against credit risk, the MWPAT has the right to terminate at any time, including upon ratings downgrade by the counterparty. As of June 30, 2007, the MWPAT was not subject to basis risk as the swap is not effective until August 1, 2009. The MWPAT uses the standard ISDA master agreement which includes standard termination events. The MWPAT is not liable for swap payments until August 1, 2009.

#### *MWPAT Additional Derivatives*

In addition, the MWPAT has additional swap transactions with a notional amount of \$77,255,000 in the aggregate. These transactions create synthetic fixed-rate bonds that mature in FY22 and FY23. Under the terms of these swaps, the MWPAT agrees to receive a variable rate, based on CPI. The MWPAT agrees to pay a fixed rate to the counterparty. Payments are made semiannually. The trade date was on November 21, 2006, effective on December 14, 2006. Variable rates for both the FY22 and FY23 maturities are CPI+0.99%. Fixed rates received are 3.88% for the FY22 maturity and 3.90% FY23 maturity, respectively. As of June 30, 2007, the fair market value of these swaps is approximately \$520,000. The MWPAT is exposed to credit risk on this swap. The counterparty has ratings of A+/A1/A+. To mitigate this risk, the MWPAT has the right to terminate the swap upon a ratings downgrade below BBB-/Baa4 by Standard & Poor's and Moody's Investors Service, respectively. The MWPAT is not exposed to basis risk on this swap as the swap payments exactly equal the bond payments. The MWPAT uses the standard ISDA master agreement which includes standard termination events.

Based on a rate reset as of February 1, 2007, the MWPAT's swap payments and associated debt are as follows (amounts in thousands):

| Fiscal Year<br>Ending June 30 | Variable-Rate Bonds |                  | Interest Rate<br>Swaps, Net | Total             |
|-------------------------------|---------------------|------------------|-----------------------------|-------------------|
|                               | Principal           | Interest         |                             |                   |
| 2008                          | \$ -                | \$ -             | \$ -                        | \$ -              |
| 2009                          | -                   | 2,290            | 717                         | 3,007             |
| 2010                          | -                   | 2,290            | 717                         | 3,007             |
| 2011                          | -                   | 2,290            | 717                         | 3,007             |
| 2012                          | -                   | 2,290            | 717                         | 3,007             |
| 2013-2017                     | -                   | 11,449           | 3,585                       | 15,034            |
| 2018-2022                     | -                   | 11,449           | 3,585                       | 15,034            |
| 2023-2024                     | 77,255              | 2,526            | 795                         | 80,576            |
| Total                         | <u>\$ 77,255</u>    | <u>\$ 34,584</u> | <u>\$ 10,833</u>            | <u>\$ 122,672</u> |



## 8. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type have fund deficits at June 30, 2007. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

| <u>Fund</u>                             | <u>Amount</u> |
|---|---------------|
| Major governmental funds:               |               |
| Highway .....                           | \$ 1,257,969  |
| Lotteries .....                         | 115,532       |
| Other governmental funds:               |               |
| General Capital Projects .....          | 164,463       |
| Capital Expenditures Reserve Fund ..... | 21,385        |
| Highway Capital Projects .....          | 166,077       |

The Commonwealth may fund these deficits with appropriations, or in the case of capital funds, proceeds from bond issuances or payments from third parties.

## 9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

### *Primary Government*

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are reimbursed to the City of Boston by the Commonwealth). The members of the retirement systems do not participate in the Social Security System.

The Commonwealth has assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, granted in fiscal year 1981 to 1997. The Commonwealth performs this valuation on an annual basis.

### **A. Plan Descriptions**

The Massachusetts *State Employees' Retirement System* (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The SERS is administered by the Massachusetts State Retirement Board and is part of the reporting entity and does not issue a stand alone financial report.

The Massachusetts *Teachers' Retirement System* (MTRS) is a defined benefit PERS managed by the Commonwealth on behalf of municipal teachers and

municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. Consequently, the Commonwealth reports the MTRS as a single employer PERS with special funding responsibilities. The MTRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone financial report.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis. During the year ended June 30, 2007, the Commonwealth's pension expenditure included payments totaling \$10,014,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans. Benefits are recorded when due and payable.

*Membership* – Membership in SERS and MTRS as of January 1, 2007, the date of the most recent valuation, is as follows:

|  | <u>SERS</u>    | <u>MTRS</u>    |
|--|----------------|----------------|
| Retirees and beneficiaries               |                |                |
| currently receiving benefits.....        | 50,412         | 47,635         |
| Terminated employees entitled to         |                |                |
| benefits but not yet receiving them..... | 3,852          | N/A            |
| Subtotal.....                            | <u>54,264</u>  | <u>47,635</u>  |
| Current members.....                     | <u>84,677</u>  | <u>88,962</u>  |
| Total.....                               | <u>138,941</u> | <u>136,597</u> |

## **B. Benefit Provisions**

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

## **C. Funding and Contributions Policy**

The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the SERS and MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

## **D. Other Financing Situations**

The Commonwealth was financially responsible for the COLA granted to participants in various retirement systems of cities, towns and counties in fiscal year 1981 to 1997. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher)

retirement systems of cities and towns to their respective systems. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system, assuming approval by the local board. The individual employer governments are also responsible for the basic pension benefits.

The actuarial accrued liability for COLA as of January 1, 2007 was \$402,000,000.

The policy for post-retirement benefit increases for all retirees of the SERS, MTRS, for those participants who serve in the City of Boston's School Department in a teaching capacity (BTRS) and COLA of local governments is subject to legislative approval.

The Commonwealth's responsibility to the BTRS is only for those costs based on annual certifications provided by the State – Boston Retirement System (SBRS) to the MTRS. Those costs are funded in arrears. The cost of pension benefits of the other participants is the responsibility of the City of Boston. The SBRS is not administered by the Commonwealth, is not part of the reporting entity of the Commonwealth. For a complete copy of SBRS's separately issued financial statements, please contact the City of Boston Retirement Board at (617)-635-4305.

The total contributions required for SERS, MTRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

A table of Pension Funding Progress is presented as required supplemental information on page 140 of this report.

Member contributions vary depending on the most recent date of membership:

| <u>Hire Date</u>         | <u>% of Compensation</u>  |
|--------------------------|---|
| Prior to 1975.....       | 5% of regular compensation  |
| 1975 - 1983.....         | 7% of regular compensation  |
| 1984 to 6/30/1996.....   | 8% of regular compensation  |
| 7/1/1996 to present..... | 9% of regular compensation except for State Police which is 12% of regular compensation   |
| 7/1/2001 to present..... | 11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000) |
| 1979 to present.....     | An additional 2% of regular compensation in excess of \$30,000  |

*Schedule of Annual Required Contributions and Calculation Methodology*

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current schedule adopted in 2004, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2023 on a 4.50% increasing basis. The funding schedule as published follows an

acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

Contributions by the Commonwealth of \$1,335,176,000 were made during the fiscal year ended June 30, 2007. Of this amount \$56,486,000 represents payments for COLA granted to participants in retirement systems of cities, towns and counties and approximately \$93,300,000 represents payments to the City of Boston to reimburse in arrears amounts for the BTRS.

GAAP requires that pension expenditures (costs) be based on the actuarially required contribution determined using an acceptable actuarial cost method and that they be not less than:

- Normal cost plus amortization of net pension obligation cost
- Interest and amortization on any unfunded prior service costs

The following table presents the FY07 annual pension cost components and changes thereon, exclusive of cost of living adjustments (amounts in thousands):

|   | <u>SERS</u>         | <u>MTRS</u>       | <u>Total</u>     |
|---|---------------------|-------------------|------------------|
| <u>2007</u>   |                     |                   |                  |
| Annual required contribution.....                       | \$ 432,219          | \$ 763,798        | \$ 1,196,017     |
| Interest on net pension obligation.....                 | (16,689)            | 21,791            | 5,102            |
| Adjustment to annual required contribution.....         | <u>15,544</u>       | <u>(20,296)</u>   | <u>(4,752)</u>   |
| Annual pension cost.....                                | 431,074             | 765,293           | 1,196,367        |
| Less: Contributions made, excluding COLAs.....          | <u>435,610</u>      | <u>747,000</u>    | <u>1,182,610</u> |
| Increase (decrease) in net pension obligation.....      | (4,536)             | 18,293            | 13,757           |
| Net pension obligation / (asset) - beginning of year... | <u>(202,291)</u>    | <u>264,137</u>    | <u>61,846</u>    |
| Net pension obligation / (asset) - end of year.....     | <u>\$ (206,827)</u> | <u>\$ 282,430</u> | <u>\$ 75,603</u> |
| <u>2006</u>   |                     |                   |                  |
| Annual pension cost.....                                | \$ 443,596          | \$ 781,001        | \$ 1,224,597     |
| Percentage of annual pension cost contributed           | 96%                 | 93%               | 94%              |
| Net pension obligation / (asset) - end of year.....     | \$ (202,291)        | \$ 264,137        | \$ 61,846        |
| <u>2005</u>   |                     |                   |                  |
| Annual pension cost.....                                | \$ 388,634          | \$ 701,918        | \$ 1,090,552     |
| Percentage of annual pension cost contributed.....      | 107%                | 97%               | 101%             |
| Net pension obligation / (asset) - end of year.....     | \$ (220,136)        | \$ 210,136        | \$ (10,000)      |

The annual required contribution for 2007 was determined as part of the January 1, 2006 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8.25% investment rate of return, (b) a 3.5% interest rate credited to the annuity savings fund and (c) a 3% cost of living increase per year. Salary increases are based on analyses of past experience but range from 4.75% to 12% depending on group and length of service. The assumptions do not include postretirement benefit increases, which are taken into account when granted under amendments to General Laws. The actuarial

value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased – in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years ago etc, so that 100% of gains and losses occurring five years ago are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 85% and 115% of market value. The remaining amortization period for the unfunded pension liability at January 1, 2007 was 16 years.

**D. *Commonwealth Post  
Employment Obligations  
Other than Pensions***

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$335,314,000 for the fiscal year ended June 30, 2007. There are approximately 52,920 participants eligible to receive benefits at June 30, 2007. In fiscal 2007, the contribution rates are 15% for all employees.

The Commonwealth's Group Insurance Commission (GIC) was established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees and retirees, and their dependents and survivors. The GIC also covers housing and redevelopment authorities' personnel, certain authorities and other offline agencies, retired municipal teachers from certain cities and towns and, as of June 30 2007, one municipality as an agent multiple employer program, accounted for as an agency fund activity. These entities that participate in the GIC are responsible for paying premiums to the GIC, but benefit from the Commonwealth's premium rates. As of June 30, 2007, there are approximately 340 municipalities as an agent – multiple employer program and other governmental units, serving approximately 34,000 individuals who receive health benefits through the Group Insurance Commission from providers. These entities that participate in the GIC are responsible for paying premiums at the same rate as Commonwealth entities to the GIC and therefore benefit from the Commonwealth's premium rates.

The GIC administers a plan not administered as a trust or an equivalent arrangement. Activities of the GIC are reported as agency fund transactions. Any assets accumulated in excess of liabilities to pay premiums or benefits or administrative expenses are returned to the General Fund. Non-Commonwealth participants in the GIC contribute to the GIC based on the plans' monthly premium or premium equivalent. The GIC's administrative costs are financed through Commonwealth appropriations and employee investment returns. The Legislature determines employees' and retirees' contribution ratios. Non-Commonwealth participants contribution ratios vary by employer. As of June 30, 2007, the GIC provided insurance for one municipality. As of June 30, 2007 no amounts were from that municipality, but unpaid.

The Group Insurance Commission (GIC) is a quasi-independent state agency governed by an eleven-member body (the Commission) appointed by the Governor. The GIC is located administratively within the Executive Office of

Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal year that ended on June 30, 2007, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

In July 2007, Governor Deval Patrick signed into law Chapter 67 of the Acts of 2007 that allows municipalities the option of joining the Group Insurance Commission's health coverage. The law will enable many municipalities to reduce health insurance costs for their employees and retirees by joining the GIC's state employee pool. Municipal employees who join GIC health coverage will no longer collectively bargain their health insurance benefits, except for premium contribution ratios. The new law also allows regional councils of government and regional planning agencies, charter schools and education collaboratives to join GIC coverage as a local option.

*Commonwealth Post Employment Obligations Other Than Pensions – GASB Statement 45*

New accounting standards will require the Commonwealth to begin disclosing its liability on a GAAP basis for other post employment benefits (commonly referred to as "OPEB") in its FY08 financial reports. An initial valuation report by an independent actuarial firm of the Commonwealth's liability for these health care and life insurance benefits was released in June 2006. The report presented two separate calculations of the Commonwealth's OPEB liability, depending on whether the liability would be prefunded.

The Commonwealth's FY08 General Appropriation Act contained several sections with regard to OPEB. The Act established a State Retiree Benefits Trust Fund, (SRBTF) with PRIM as trustee and administrator. Other members of the board of trustees of the fund including the Secretary for Administration and Finance and the Executive Director of the Group Insurance Commission. The SRBTF will deposit, invest and disburse amounts set aside solely to meet liabilities of the state employees' retirement system for health care and other non-pension benefits for retired members of the system. The SRBTF will receive any revenue from appropriations or other monies authorized by the general court and specifically designated to be credited to the fund, and any gifts, grants, private contributions, investment income earned on the fund's assets and all other sources. Money remaining in the fund at the end of a fiscal year shall not revert to the General Fund. Upon request of the Group Insurance Commission, the trustees may expend funds solely to pay the costs of health care and other non-pension benefits for retired members of the state retirement system with the Group Insurance Commission responsible for administering the payment of, and determining the terms, conditions, schedule of benefits, carriers and eligibility for, health care and other non-pension benefits for retired members. The Board may authorize funds to be invested as part of the PRIT fund. The SRBTF is deemed an irrevocable trust as it can only be revoked when all such health care and other non-pension benefits, current and future, have been paid or defeased.

The General Appropriation Act directs the Comptroller to transfer during FY08 \$343,242,800 from the General Fund to the SRBTF according to a schedule developed in consultation with the State Treasurer and the Secretary for Administration and Finance. The Act further directs the Comptroller to transfer the balance in the Health Care Security Trust, including any accrued revenues to the State Retiree Benefits Trust Fund on or before June 30, 2008. Finally, the Act enables a special commission to investigate and study the Commonwealth's liability for OPEB. The commission is charged with examine further legislation necessary to comply with OPEB standards under GAAP, a possible amortization schedule to fund the Commonwealth's liability and alternatively, borrowing against future tobacco litigation proceeds to fund OPEB. The commission's report is due to various legislative bodies on or before December 31, 2007

## 10. LEASES

### Primary Government

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The Colleges and the University lease real property and equipment under numerous operating lease agreements for varying terms.

The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2007 (amounts in thousands):

| Fiscal<br>Year<br>Ended<br>June 30                                       | Governmental Activities |            |                     |                             |                                     | Business - Type Activities |           |                     |                                       |  |
|--|-------------------------|------------|---------------------|-----------------------------|-------------------------------------|----------------------------|-----------|---------------------|---------------------------------------|--|
|  | Capital Leases          |            | Operating<br>Leases | MSBA<br>Operating<br>Leases | Governmental<br>Activities<br>Total | Capital Leases             |           | Operating<br>Leases | Business -Type<br>Activities<br>Total |  |
|  | Principal               | Interest   |                     |                             |                                     | Principal                  | Interest  |                     |                                       |  |
| 2008 .....   | \$ 41,647               | \$ 5,388   | \$ 135,638          | \$ 276                      | \$ 182,949                          | \$ 19,311                  | \$ 3,293  | \$ 18,659           | \$ 41,263                             |  |
| 2009 .....   | 10,920                  | 3,278      | 97,370              | 669                         | 112,237                             | 13,407                     | 2,487     | 16,480              | 32,374                                |  |
| 2010 .....   | 10,658                  | 3,200      | 75,785              | 687                         | 90,330                              | 11,803                     | 1,922     | 14,489              | 28,214                                |  |
| 2011 .....   | 5,911                   | 1,776      | 58,511              | 705                         | 66,903                              | 9,302                      | 1,446     | 12,822              | 23,570                                |  |
| 2012 .....   | 3,766                   | 1,131      | 165,640             | 722                         | 171,259                             | 7,366                      | 1,107     | 11,767              | 20,240                                |  |
| 2013 - 2017 .....  | 12,334                  | 3,703      | 60,264              | 1,946                       | 78,247                              | 16,693                     | 2,543     | 39,765              | 59,001                                |  |
| 2018 - 2022 .....  | 13,329                  | 4,001      | 46,929              | -                           | 64,259                              | 2,676                      | 1,172     | 507                 | 4,355                                 |  |
| 2023 - 2027 .....  | 6,487                   | 1,947      | 46,732              | -                           | 55,166                              | 2,885                      | 377       | -                   | 3,262                                 |  |
| 2028 - 2032 .....  | -                       | -          | 18,597              | -                           | 18,597                              | -                          | -         | -                   | -                                     |  |
| Total lease obligations.....   | 105,052                 | 24,424     | 705,466             | 5,005                       | 839,947                             | 83,443                     | 14,347    | 114,489             | 212,279                               |  |
| Lease to Route 3 North, a<br>discretely presented<br>component unit..... | 273,886                 | 344,274    | -                   | -                           | 618,160                             | -                          | -         | -                   | -                                     |  |
| Subtotal .....   | 378,938                 | 368,698    | 705,466             | 5,005                       | 1,458,107                           | 83,443                     | 14,347    | 114,489             | 212,279                               |  |
| Less: current portion: .....   | (41,647)                | (5,388)    | (135,638)           | (276)                       | (182,949)                           | (19,311)                   | (3,293)   | (18,659)            | (41,263)                              |  |
| Long - term lease obligations ...  | \$ 337,291              | \$ 363,310 | \$ 569,828          | \$ 4,729                    | \$ 1,275,158                        | \$ 64,132                  | \$ 11,054 | \$ 95,830           | \$ 171,016                            |  |



## 11. COMMITMENTS

### A. *Commitments to Discretely Presented Component Units and Other Entities*

The Commonwealth has various streams of dedicated revenues reflected in its activities. Approximately \$2.0 billion in revenues from federal grants passed through the Federal Grants Fund represents the greatest source of dedicated revenues.

The largest pledge of tax revenues apportions a “dedicated sales tax” amounting to 1% of applicable sales in the Commonwealth directly to the MBTA. Total dedicated sales tax revenue directed to the MBTA in FY07 was approximately \$733,963,000. The Commonwealth continues to guarantee certain MBTA outstanding at June 30, 2007, totaling \$1,305,465,000.

In FY07, approximately \$557,400,000 of dedicated sales tax revenue was pledged to fund school construction via a transfer to the MSBA. In future years these amounts rise further per statute until a full 1% of applicable sales tax is pledged in FY11.

Other major dedicated tax revenue streams include surcharges from areas contiguous to convention centers to support such centers’ operations, motor fuels taxes to support highway construction, repairs and maintenance and cigarette taxation to support health and human service costs.

At June 30, 2007, the Commonwealth had commitments of approximately \$621,189,000 related to ongoing construction projects. As previously noted the Central Artery/Tunnel Project continues to anticipate federal participation and payments from the MTA and the MassPort.

In May of 2007, the Commonwealth issued \$553,135,000 of General Obligation Refunding Bonds, 2007 Series A, a portion of which were issued to refund bonds of the Massachusetts Convention Center Authority (MCCA), the town of Foxborough Industrial Development Financing Authority and the Route 3 North Transportation Improvements Association. Because of this transaction, the Commonwealth refinanced its outstanding contract assistance liability for these entities, totaling approximately \$128,500,000.

### B. *Saltonstall Building*

The Massachusetts Development Finance Agency (MDFA) was authorized in legislation to undertake redevelopment of the Saltonstall State Office Building and its surrounding area. Under the provisions of MDFA’s bond authorization, the building is to be leased by the MDFA for a lease term of up to 50 years with extension terms permitted for an aggregate 30 more years. The MDFA renovated the building and leases half of it back to the Commonwealth for office space and related parking for a comparable lease term. The remainder of the building and surrounding area has been redeveloped as private office space, housing and retail establishments. The Commonwealth is obligated for future lease payments for space it rents. However, this obligation is not a general obligation or a pledge of credit of the Commonwealth. Though MDFA’s bonds are revenue obligations, with pledges of the public and private lease payments, the Commonwealth’s lease payments are subject to annual appropriation. Such commitments are reflected in footnote 10.

**C.      *MSBA Grant  
Commitments***

The MSBA has estimated the amount of outstanding waiting list commitments at June 30, 2007 to be approximately \$933 million.

In FY08, the MSBA will begin approving grants under a new program for school construction and renovation. Under the new program, no entitlement funds are available from MSBA. Grants approved by MSBA may be eligible for 40% to 80% of approved project costs. Grants are limited by fiscal year. In FY08, the limit is \$500 million. Thereafter, the limit rises by the lesser of 4.5% of the limit of the previous year (\$22,500,000 in FY09) or the percentage increase in the dedicated sales tax revenue amount over the prior fiscal year.

**D.      *Central Artery /  
Tunnel Project***

The Central Artery / Tunnel Project is the largest single component of the Commonwealth's capital program according to the projects finance update filed as of May 2007. The current cost estimate is \$14.798 billion, of this amount all but \$280 million has been expended. The plan includes a maximum obligation of \$8.444 billion from the federal government. The finance plan is currently under review.

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## **12. CONTINGENCIES**

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A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately \$38,000,000 to be paid during FY08.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2007 is estimated to be \$312,600,000, of which approximately \$39,080,000 is expected to be paid during FY08.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally contingent upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund, which received the assistance. At June 30, 2007, the Commonwealth estimated that liabilities, if any, which may result from such audits are not material.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during FY07 totaled approximately \$121,834,000. A portion of accumulated claims since the law's enactment represent a contingency, because claims for refunds can be made by the owners of the property.

**A. Tobacco Settlement**

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth.

The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than \$200 billion over the first 25 years, subject to various offsets, reductions, and adjustments.

In FY07, the Commonwealth received approximately \$247,340,000 or 87% of the estimated amounts shown in the MSA. All received amounts were recorded in the General Fund.

Amounts received in FY07 continued to be less than had previously been projected as payments under the MSA. The Commonwealth's allocable share of the base amounts payable under the MSA is approximately 4.04%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is more than \$8.3 billion, subject to adjustments, reductions and offsets. However, in pending litigation, tobacco manufacturers are claiming that because of certain developments, they are entitled to reduce future payments under the MSA, and certain manufacturers withheld payments to the states due in FY06 and FY07. The Commonwealth continues to pursue legal action to compel the payment of these additional funds and to obtain a legal determination that the Commonwealth is immune from the claimed downward adjustment to its settlement payments.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2007, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through the arbitration payments.

**B. Workers' Compensation and Group Insurance Liabilities**

Workers' Compensation is managed as part of the course of the Commonwealth's general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. Claims for compensation are not separately insured and are funded by the Commonwealth only when incurred. Such losses, including estimates of amounts incurred, but not reported are included as accrued liabilities in the accompanying financial statements when the loss is incurred. The Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

Based on actuarial calculations as of June 30 2007, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling \$312.6 million, which is reported in accrued liabilities in the Governmental Activities.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY07 and FY06 were (amounts in millions):

|   | <u>FY07</u>     | <u>FY06</u>     |
|---|-----------------|-----------------|
| Claim liability, beginning of year.....           | \$ 316.6        | \$ 312.6        |
| Increase in liability estimate.....               | 45.6            | 54.4            |
| Payments and decreases in liability estimate..... | <u>(49.6)</u>   | <u>(50.4)</u>   |
| Claims liability, end of year.....                | <u>\$ 312.6</u> | <u>\$ 316.6</u> |

The Group Insurance Commission (GIC), a department of the Commonwealth, manages health insurance claims of the Commonwealth's active and retired employees. The Commonwealth is self-insured and various health insurance providers provide health care services to the employees. The accrued liability is estimated based on data provided to the GIC by the insurance companies who participate in the self-insured plans.

Based on GIC estimates, the Commonwealth is liable for an amount of \$62.5 million, net of the employees' reserve of \$26.0 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY07 and FY06 were (amounts in millions):

|   | <u>FY07</u>      | <u>FY06</u>    |
|---|------------------|----------------|
| Claim liability, beginning of year.....           | \$ 77.0          | \$ 63.9        |
| Increase in liability estimate.....               | 1,007.8          | 976.8          |
| Payments and decreases in liability estimate..... | <u>(1,022.3)</u> | <u>(963.7)</u> |
| Claims liability, end of year.....                | <u>\$ 62.5</u>   | <u>\$ 77.0</u> |

**C. Central  
Artery/Tunnel  
Project**

*Owner Controlled Insurance Program (OCIP)*

The Commonwealth of Massachusetts has assumed responsibility for providing worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project, (Project) by establishing an OCIP. The Highway Department established a trust managed and administered by an independent third party (trustee) to protect a portion of the assets set aside with the insurance carrier to fund project liabilities.

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The withdrawals, other than those to cover costs specified by the Trust Agreement, require mutual consent. During FY03 federally funded fund assets were replaced by state assets and therefore are no longer restricted as to the ultimate distribution at the end of the Project. The insurance coverage provided by the Commonwealth currently extends through October 31, 2007. The Project's OCIP activity is reported as a minor governmental (capital project) fund. The "Claims and Judgements" liability reported within the fund represents the Project's liabilities as estimated by an independent actuary for incurred losses projected to their ultimate value as of the end of the fiscal year for FY06. The remaining liability is reported as part of the non-current liability in the statement of net assets.

As of June 30, 2007, the OCIP has accumulated approximately \$133,430,000 in assets that consist of approximately \$118,978,000 in cash and investments, approximately \$13,018,000 in funds held by the trustee of the program, approximately \$1,434,000 in interest income receivable. Net assets at year – end of approximately \$47,763,000 were restricted for workers' compensation and general liability claims.

The OCIP's assets are to be available to pay the obligations under the programs. These insurance programs are presently structured as retrospectively rated insurance programs with retained loss limits of \$1,000,000 per claim, \$3,000,000 per occurrence for worker's compensation and \$2,000,000 per contractor, \$6,000,000 per occurrence for general liability coverage. The Commonwealth is responsible for loss costs up to these amounts.

The estimated Claims and Judgements liability for the OCIP for occurrences through June 30, 2007 is approximately \$68,500,000. Current claims payable approximates \$16,200,000, which is presented in a governmental fund, while the remaining non-current claims payable of approximately \$52,300,000 is presented on the statement of net assets. This amount is based on the results of a review performed by an independent actuarial firm retained by the Project, and it represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2007.

#### *Central Artery / Tunnel Project Leaks – Quality Concerns*

On July 10, 2006, panels in the ceiling of the eastbound I-90 Connector Tunnel that leads to the Ted Williams Tunnel Fell, causing the death of an automobile passenger. State and federal law enforcement officials are investigating the incident. The investigations of the ceiling collapse initially focused on the apparent failure of epoxy bolt assemblies attaching the panels of the roof of the tunnel. Counsel for the estate of the deceased passenger and family commenced a lawsuit against the Massachusetts Turnpike Authority and various contractors. The Commonwealth is responsible under the general liability coverage in the OCIP for covered loss costs up to \$2,000,000 per covered contractor, \$6,000,000 aggregate. The OCIP has assigned a loss limit of \$2,000,000 for the Commonwealth's share of its liabilities with the claims against the OCIP, which has been factored in the actuarial estimation of unpaid claims liabilities.

On July 10, 2007 the National Transportation Safety Board released its findings pertaining to the collapse of several concrete suspended ceiling panels in the Interstate 90 connector. The Board's assessment was that the proximate cause of the failure was the use of a fast-setting epoxy anchoring system which was susceptible to "creep" -- the tendency for slippage or elongation with the application of sustained tensile loads. Subsequent to the collapse, a full inspection was conducted, and continues today, inspecting all aspects of the project's design, construction and life safety systems. Immediate concerns have been remediated with additional design modifications and adjustments made as necessary to ensure the safety of the motoring public.

*Delay of Federal Funding*

The CA/T project finance plans submitted through October, 2003 have received the requisite approvals. The most recent finance plan was submitted in July, 2004, but has not yet received federal approval. On May 23, 2007 the Massachusetts Turnpike Authority filed a finance plan update with the Federal Highway Administration. The finance plan update is currently under review by the Federal Highway Administration and the Inspector General of the U. S. Department of Transportation.

In connection with the submission of the finance plan update, the MTA has reviewed all of the major cost centers and has preliminarily revised the CA/T project budget and cash flows. The EOT just completed its own assessment of the MTA's updated budget. Based on such reviews, the Commonwealth and the MTA now estimate that the total cost of the project will be \$14.798 billion, exclusive of certain cost recoveries, insurance payments and credits received or to be received in the future. However, due to the uncertain timing and amounts of CA/T cost recoveries, the cash needs to complete the project must be provided by the Commonwealth or the MTA, at least until such cost recoveries are realized. Such cash needs are projected to be approximately \$210 million.

The Commonwealth has proposed to the MTA that the \$210 million funding shortfall be covered from the following two sources: (a) at least \$140 million projected to be available in the TIF through June 30, 2009; and (b) up to \$70 million of Commonwealth bond proceeds. This commitment by the Commonwealth to cover the funding shortfall is subject to the following conditions: (i) the MTA must cover any future shortfalls in MTA funding to complete the project and any costs in excess of \$14.798 billion; (ii) all cost recoveries, insurance proceeds and, until the amounts advanced to the project by the Commonwealth described in (a) and (b) above are recovered, proceeds of the sale of certain real property of the MTA related to the project that are received by the MTA or the Commonwealth shall, subject to legislative authorization, be deposited into the TIF to pay project costs in lieu of the additional amounts committed by the Commonwealth or to reimburse the Commonwealth for project costs already paid; (iii) to the extent that, by June 30, 2010, the amounts described in clause (ii) above received by or paid to the Commonwealth have aggregated less than the portion of the \$210 million funding shortfall paid from Commonwealth bonds, the MTA will pay the difference to the Commonwealth by not later than January 1, 2011; and (iv) to the extent legally and practically feasible, the MTA must comply with new reporting and accounting requirements to improve the transparency of project financing matters to the Commonwealth. The MTA approved this proposal at its board meeting on May 15, 2007.

The revised project cost estimates are based on assumptions concerning the resolution of claims, liquidated damages and back charges to the MTA that the MTA believes to be reasonable. The actual resolution of such amounts could vary from those assumptions, and the FHWA, in its review of the finance plan update, could arrive at different conclusions as to whether these assumptions are sound. The order of magnitude of the additional exposure related to such claims, liquidated damages and back charges is approximately \$30 million.

When the 2004 finance plan failed to receive approval prior to the end of the federal fiscal years ended September 30, 2005 and September 30, 2006, the Commonwealth applied the federal funds to other eligible transportation projects within the Commonwealth and to the payment of principal of federal grant anticipation notes.

Since such approval was not received before the end of the federal fiscal year ending September 30, 2007, the Commonwealth has applied the federal funds to other eligible transportation projects and to pay the principal of federal grant anticipation notes this year as well. Until such federal funds are received, the related costs of the project are being temporarily financed by the Commonwealth.

On June 4, 2007, the Commonwealth received final payment of a \$58.5 million settlement with American International Group (AIG) for reimbursement of delayed credits to the owner-controlled insurance program for the CA/T project and accrued interest on such delayed credits. The federal government recently determined that the portion of the principal reimbursement allocable to overpayments made by the federal government which must be credited back to the federal government would be reobligated to the CA/T project, resulting in no net impact on the federal funding commitment for the project and therefore no financial impact to the Commonwealth. The federal government has indicated, however, that it will reduce future federal contributions to the project by \$29 million, representing the portion of the settlement allocable to the federal share of accrued interest on the delayed credits. Of the \$58.5 million of settlement proceeds received by the Commonwealth, \$23.7 million has been transferred to pay remaining costs of the CA/T project (thereby offsetting most of the impact of the \$29 million reduction), and the balance has been expended by the Commonwealth for general purposes.

The federal review of the finance plan update is near completion. The Commonwealth currently anticipates receiving \$133 million in withheld funds upon federal approval of the update. One issue raised by the federal government in the course of its review is that the finance plan is based on an assumption that the remaining deductible liability payable to AIG from the owner-controlled insurance program trust for construction-related CA/T project claims will be sold and that there is insufficient evidence of AIG's willingness to grant the required approval for the sale of such liability. The Commonwealth and the Turnpike Authority are engaged in negotiations with AIG to obtain AIG's approval of the sale or of another option for liquidating excess amounts on deposit in the insurance trust to satisfy cash flow needs identified in the updated finance plan. The Commonwealth and the Turnpike Authority anticipate obtaining a commitment from AIG to grant the desired approval. In the event AIG does not grant the desired approval, the Turnpike Authority or the Commonwealth would need to temporarily fund approximately \$30 million of CA/T project costs to complete the project, but it is expected that this amount would be reimbursed over time as final claims are paid from the insurance trust and excess amounts in the trust are released.



**D. Other Claims & Judgements**

The following amounts were recognized for claims and judgements as of June 30, 2007 (amounts in thousands):

|                 | Balance<br>as of<br>July 1, 2006 | Additions        | Reductions       | Balance<br>as of<br>June 30, 2007 |
|-----------------|----------------------------------|------------------|------------------|-----------------------------------|
| Short-term..... | \$ 50,800                        | \$ 13,528        | \$ 10,128        | \$ 54,200                         |
| Long-term.....  | 144,400                          | 4,600            | 16,700           | 132,300                           |
|                 | <u>\$ 195,200</u>                | <u>\$ 18,128</u> | <u>\$ 26,828</u> | <u>\$ 186,500</u>                 |

**E. SEC Inquiry**

In late August and early September, 2006, the Securities and Exchange Commission (SEC) sent certain departments and instrumentalities of the Commonwealth letters requesting voluntary provision of documents and information regarding safety reviews of the CA/T project during the period January 1, 2004 to September 2006 and related disclosures. The Commonwealth has provided the requested documents.



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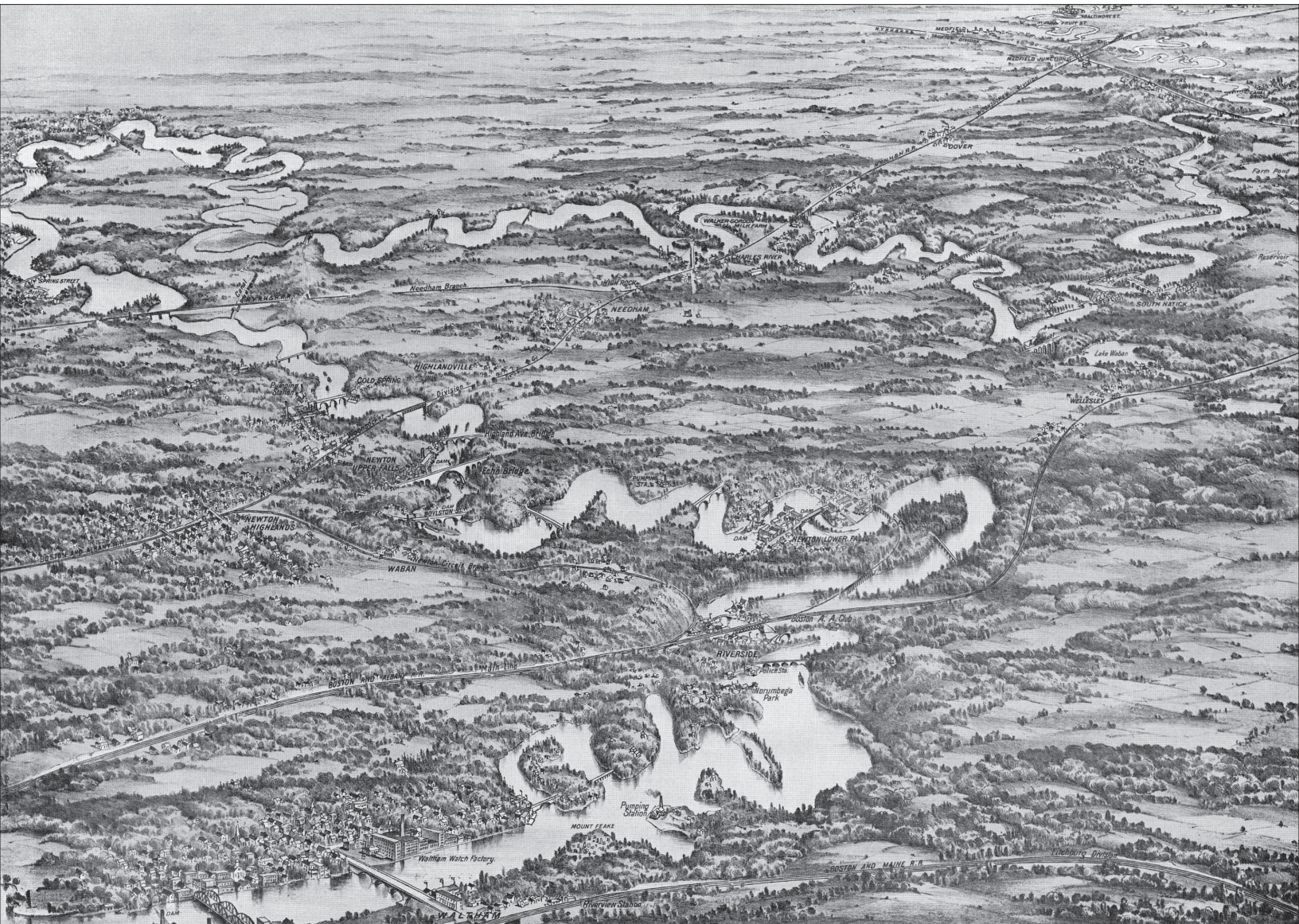


## Charles River Reservation, Boston

The Charles River Reservation is 17 miles of linear park with endless recreational opportunities. Whether your interest is canoeing or ice skating, baseball or in-line skating, the Charles River is a beautiful resource. Since 1893, the Commonwealth has preserved the region's unique landscapes by acquiring and protecting park lands, river corridors and coastal areas; reclaiming and restoring abused and neglected sites, and setting aside areas of great scenic beauty for the recreation and health of the region's residents.



*"Echo Bridge, Newton Upper Falls, Mass."  
Courtesy of The Newton History Museum*



*Canoe Map of Charles River  
Bird's-Eye View Showing Carries, Dam, etc.  
Original printing 1916, Walker Lith. & Pub. Co., Boston  
Reprinted 1993 by Massachusetts Audubon Society, Broadmoor Wildlife Sanctuary  
South Natick, Massachusetts  
State House Image Library*



# *Required Supplementary Information Other than Management Discussion and Analysis*

*Schedule of Revenue, Expenditures And Changes In Fund Balances – Statutory Basis – Budget and Actual  
Explanation of Differences Between Revenues, Expenditures and*

*Other Financing Sources for Budgetary Funds on a Budgetary Basis and GAAP Basis*

*Notes to Required Supplementary Information – Budgetary Reporting*

*Schedule of Pension Funding Progress –Last Ten Fiscal Years*



Boston is an historic, highly developed, and mature city blessed with a vibrant park system of enormous breadth that includes the venerable Boston Common, the highly elaborated Public Garden, modern state-of-the-art sports facilities, playgrounds, urban wilds, community gardens, burying grounds and pastoral cemeteries, and walking and bicycling paths. A significant part of the character of Boston as seen by both Bostonians and outsiders is its image as a “green city.” Lewis Mumford, the famous urban development critic, noted early in the 20th century that Boston’s integration of the built environment with green space made it a model American city. Therefore, a substantial part of its physical character and image is based on the significant complement of parks and play areas that grace the downtowns and neighborhoods. These parks and recreation areas provide scenic beauty, opportunities to exercise, play, and relax for health’s

sake, and relief from the built environment. The remarkable presence of this open space is due in large measure to the foresight of citizens in earlier times. Boston was fortunate to have city leaders who purchased open space for public use or received important donations of land, and to have eminent residents such as Joseph Lee, the father of the American playground movement.

*Excerpt from the City of Boston’s Open Space Plan*



*Boston Common, Frog Pond  
Photograph by Vinh Nguyen*

# Schedule of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual

Budgeted Funds  
Fiscal Year Ended June 30, 2007  
(Amounts in thousands)

|  | Original<br>Budget  | Final<br>Budget     | Actual              | Variance<br>over / (under) |
|--|---------------------|---------------------|---------------------|----------------------------|
| <b>REVENUES AND OTHER FINANCING SOURCES</b>  |                     |                     |                     |                            |
| <b>Revenues:</b>   |                     |                     |                     |                            |
| Taxes.....   | \$ 17,662,500       | \$ 17,662,500       | \$ 18,444,891       | \$ 782,391                 |
| Assessments.....   | -                   | -                   | 158,623             | 158,623                    |
| Federal grants and reimbursements.....   | 6,170,100           | 6,170,100           | 6,167,575           | (2,525)                    |
| Departmental.....  | 2,096,600           | 2,096,600           | 1,803,714           | (292,886)                  |
| Miscellaneous.....   | 45,000              | 45,000              | 448,716             | 403,716                    |
| <b>Total revenues.....</b>   | <b>25,974,200</b>   | <b>25,974,200</b>   | <b>27,023,519</b>   | <b>1,049,319</b>           |
| <b>Other financing sources:</b>  |                     |                     |                     |                            |
| Fringe benefit cost recovery.....  | -                   | -                   | 285,025             | 285,025                    |
| Lottery reimbursements.....  | -                   | 100,000             | 97,324              | (2,676)                    |
| Lottery distributions.....   | -                   | 999,642             | 999,642             | -                          |
| Tobacco settlement transfer.....   | -                   | 260,000             | 247,340             | (12,660)                   |
| Excess permissible tax revenue.....  | -                   | -                   | 86,986              | 86,986                     |
| Operating transfers in.....  | 1,866,900           | 507,258             | 238,133             | (269,125)                  |
| Stabilization transfer.....  | -                   | -                   | 90,883              | 90,883                     |
| Transfer for transitional escrow.....  | -                   | -                   | 100,000             | 100,000                    |
| <b>Total other financing sources.....</b>  | <b>1,866,900</b>    | <b>1,866,900</b>    | <b>2,145,333</b>    | <b>278,433</b>             |
| <b>Total revenues and other financing sources.....</b>   | <b>27,841,100</b>   | <b>27,841,100</b>   | <b>29,168,852</b>   | <b>1,327,752</b>           |
| <b>EXPENDITURES AND OTHER FINANCING USES</b>   |                     |                     |                     |                            |
| <b>Expenditures:</b>   |                     |                     |                     |                            |
| Legislature.....   | 89,513              | 89,513              | 59,103              | 30,410                     |
| Judiciary.....   | 775,571             | 803,768             | 778,788             | 24,980                     |
| Inspector General.....   | 3,211               | 3,211               | 3,033               | 178                        |
| Governor and Lieutenant Governor.....  | 5,770               | 6,223               | 5,129               | 1,094                      |
| Secretary of the Commonwealth.....   | 47,791              | 48,918              | 45,262              | 3,656                      |
| Treasurer and Receiver-General.....  | 206,869             | 146,219             | 129,945             | 16,274                     |
| Auditor of the Commonwealth.....   | 18,275              | 18,275              | 18,267              | 8                          |
| Attorney General.....  | 41,116              | 41,266              | 39,249              | 2,017                      |
| Ethics Commission.....   | 1,554               | 1,554               | 1,554               | -                          |
| District Attorney.....   | 93,267              | 95,307              | 93,044              | 2,263                      |
| Office of Campaign & Political Finance.....  | 1,110               | 1,110               | 1,107               | 3                          |
| Sheriff's Departments.....   | 271,253             | 272,801             | 268,903             | 3,898                      |
| Disabled Persons Protection Commission.....  | 1,903               | 1,903               | 1,903               | -                          |
| Board of Library Commissioners.....  | 6,656               | 6,656               | 6,656               | -                          |
| Comptroller.....   | 12,248              | 17,428              | 12,032              | 5,396                      |
| Administration and finance.....  | 1,838,605           | 1,964,037           | 1,768,265           | 195,772                    |
| Energy and environmental affairs.....  | 242,684             | 246,985             | 236,341             | 10,644                     |
| Housing and community development.....   | 129,611             | 97,247              | 96,169              | 1,078                      |
| Early education and care.....  | 510,029             | 510,629             | 506,743             | 3,886                      |
| Health and human services.....   | 4,738,110           | 4,724,925           | 4,653,862           | 71,063                     |
| Transportation and public works.....   | 281,691             | 309,609             | 284,141             | 25,468                     |
| Education.....   | 394,537             | 394,736             | 377,219             | 17,517                     |
| Higher education.....  | 1,123,786           | 1,136,786           | 1,115,696           | 21,090                     |
| Public safety and homeland security.....   | 1,084,902           | 1,124,048           | 1,087,132           | 36,916                     |
| Housing and economic development.....  | 262,967             | 271,677             | 236,618             | 35,059                     |
| Labor and workforce development.....   | -                   | 27,245              | 20,281              | 6,964                      |
| Direct local aid.....  | 5,035,584           | 5,037,024           | 5,033,364           | 3,660                      |
| Medicaid.....  | 7,525,772           | 7,579,752           | 7,550,447           | 29,305                     |
| Pension.....   | -                   | 1,335,176           | 1,335,176           | -                          |
| Debt service:  |                     |                     |                     |                            |
| Principal retirement.....  | 1,058,675           | 1,071,580           | 1,285,937           | (214,357)                  |
| Interest and fiscal charges.....   | 822,561             | 809,656             | 798,516             | 11,140                     |
| <b>Total expenditures.....</b>   | <b>26,625,621</b>   | <b>28,195,264</b>   | <b>27,849,882</b>   | <b>345,382</b>             |
| <b>Other financing uses:</b>   |                     |                     |                     |                            |
| Fringe benefit cost assessment.....  | -                   | 65,400              | 79,070              | (13,670)                   |
| Excess permissible tax revenue.....  | -                   | -                   | 86,986              | (86,986)                   |
| Uncompensated care pool transfer.....  | -                   | 1,115,600           | 1,133,613           | (18,013)                   |
| Operating transfers out.....   | -                   | 123,295             | 135,453             | (12,158)                   |
| Stabilization transfer.....  | -                   | -                   | 90,883              | (90,883)                   |
| Transfer for transitional escrow.....  | -                   | -                   | 100,000             | (100,000)                  |
| Fund consolidation transfer.....   | -                   | -                   | -                   | -                          |
| <b>Total other financing uses.....</b>   | <b>-</b>            | <b>1,304,295</b>    | <b>1,626,005</b>    | <b>(321,710)</b>           |
| <b>Total expenditures and other financing uses.....</b>  | <b>26,625,621</b>   | <b>29,499,559</b>   | <b>29,475,887</b>   | <b>23,672</b>              |
| <b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b> | <b>1,215,479</b>    | <b>(1,658,459)</b>  | <b>(307,035)</b>    | <b>1,351,424</b>           |
| Fund balances (deficit) at beginning of year.....  | 3,208,050           | 3,208,050           | 3,208,050           | -                          |
| <b>Fund balances (deficits) at end of year.....</b>  | <b>\$ 4,423,529</b> | <b>\$ 1,549,591</b> | <b>\$ 2,901,015</b> | <b>\$ 1,351,424</b>        |

See note to required supplementary information-Budgetary Reporting

**Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses)  
for Budgetary Funds on a Budgetary Basis and GAAP Basis (in thousands):**

|   | <u>General</u>       | <u>Highway</u>    |
|---|----------------------|-------------------|
| <b>REVENUES</b>   |                      |                   |
| Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....  | \$ 25,669,820        | \$ 991,900        |
| Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:  |                      |                   |
| Tax revenue .....   | 127,691              | 1,306             |
| Federal reimbursements and other receivables.....   | (9,744)              | (236)             |
| Reclassifications:  |                      |                   |
| Higher education revenue is reclassified for GAAP reporting.....  | (73,039)             | -                 |
| Budgetary Stabilization Fund and Administrative Control Funds revenues<br>are reclassified to the General Fund for GAAP reporting.....                                    | 287,509              | -                 |
| Total budgeted funds revenues as reported on the Statement of Revenues, Expenditures<br>and Changes in Fund Balances - Governmental Funds.....                            | 26,002,237           | 992,970           |
| Non-Budgeted Activity.....  | -                    | -                 |
| <b>Total revenues as reported on the Statement of Revenues, Expenditures<br/>and Changes in Fund Balances - Governmental Funds .....</b>                                  | <b>\$ 26,002,237</b> | <b>\$ 992,970</b> |
| <b>EXPENDITURES</b>   |                      |                   |
| Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....   | \$ 26,452,208        | \$ 1,112,668      |
| Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:  |                      |                   |
| Medicaid payments.....  | 20,900               | -                 |
| Compensated absences and other accrued liabilities.....   | 83,375               | (690)             |
| Reclassifications:  |                      |                   |
| Budgetary Stabilization Fund and Administrative Control Funds expenditures<br>are reclassified to the General Fund for GAAP reporting.....                                | 196,190              | -                 |
| Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP<br>purposes as the Commonwealth does not have a statutory debt service fund..... | (1,312,643)          | (771,810)         |
| Higher education expenditures are reclassified for GAAP reporting.....  | (1,290,951)          | -                 |
| Total budgeted funds expenditures as reported on the Statement of Revenues, Expenditures<br>and Changes in Fund Balances - Governmental Funds.....                        | 24,149,079           | 340,168           |
| Non-Budgeted Activity.....  | -                    | -                 |
| <b>Total expenditures as reported on the Statement of Revenues, Expenditures<br/>and Changes in Fund Balances - Governmental Funds .....</b>                              | <b>\$ 24,149,079</b> | <b>\$ 340,168</b> |
| <b>OTHER FINANCING SOURCES</b>  |                      |                   |
| Actual amounts (budgetary basis) "other financing sources"<br>from the budgetary comparison schedule.....   | \$ 1,910,124         | \$ 701            |
| Reclassifications:  |                      |                   |
| Budgetary Stabilization Fund and Administrative Control Funds expenditures<br>are reclassified to the General Fund for GAAP reporting.....                                | 234,376              | -                 |
| Adjustments:  |                      |                   |
| Consolidation of transfers between funds.....   | (278,380)            | -                 |
| Inflows from component units and other miscellaneous financing sources.....   | 27,882               | -                 |
| Total budgeted funds other financing sources as reported on the Statement of Revenues, Expenditures<br>and Changes in Fund Balances - Governmental Funds.....             | 1,894,002            | 701               |
| Non-Budgeted Activity.....  | -                    | -                 |
| <b>Total other financing sources as reported on the Statement of Revenues, Expenditures<br/>and Changes in Fund Balances - Governmental Funds .....</b>                   | <b>\$ 1,894,002</b>  | <b>\$ 701</b>     |
| <b>OTHER FINANCING USES</b>   |                      |                   |
| Actual amounts (budgetary basis) "other financing uses"<br>from the budgetary comparison schedule.....  | \$ 1,473,901         | \$ 105,478        |
| Adjustments and Reclassifications:  |                      |                   |
| Budgetary Stabilization Fund and Administrative Control Funds expenditures<br>are reclassified to the General Fund for GAAP reporting.....                                | 44,004               | -                 |
| Consolidation of transfers between funds.....   | (278,380)            | -                 |
| Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....  | 1,217,912            | -                 |
| Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP<br>purposes as the Commonwealth does not have a statutory debt service fund..... | 1,312,643            | 771,810           |
| Outflows from component units and other miscellaneous financing sources.....  | -                    | -                 |
| Total budgeted funds other financing uses as reported on the Statement of Revenues, Expenditures<br>and Changes in Fund Balances - Governmental Funds.....                | 3,770,080            | 877,288           |
| Non-Budgeted Activity.....  | -                    | -                 |
| <b>Total other financing uses as reported on the Statement of Revenues, Expenditures<br/>and Changes in Fund Balances - Governmental Funds .....</b>                      | <b>\$ 3,770,080</b>  | <b>\$ 877,288</b> |

**Note to Required Supplementary Information – Budgetary Reporting**

The Commonwealth passes a combined budget for all budgeted operations. State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits, pension costs, and certain other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a difference to separately published budget documents. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. An example of this is the lack of a budget for pension costs.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. Alternatively, the Governor may propose specific additional revenues to fund the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure the deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The table on the following page summarizes budgetary activity for FY07 (amounts in thousands):



|  | <u>Revenues</u>      | <u>Expenditures</u>  |
|--|----------------------|----------------------|
| General Appropriation Act, Chapter 139 of the Acts of 2006:  |                      |                      |
| Direct appropriations .....  | \$ 27,499,100        | \$ 24,313,186        |
| Estimated revenues, transfers, direct appropriations<br>retained revenue appropriations, interagency chargebacks<br>and appropriations carried forward from FY2006 ..... | <u>342,000</u>       | <u>2,312,435</u>     |
| Total original budget .....  | 27,841,100           | 26,625,621           |
| Supplemental Acts of 2006:   |                      |                      |
| Chapter 153 .....  | -                    | 20,000               |
| Supplemental Acts of 2007:   |                      |                      |
| Chapter 16 .....   | -                    | 17,624               |
| Chapter 42 .....   | -                    | 85,439               |
| Total as of June 30, 2007 .....  | 27,841,100           | 26,748,684           |
| Supplemental Acts of 2007, passed after June 30:   |                      |                      |
| Chapter 122 .....  |                      | 9,500                |
| Chapter 140 .....  | <u>-</u>             | <u>214,761</u>       |
| Subtotal .....   | 27,841,100           | 26,972,945           |
| Less: Governor's Actions with regard to Chapter 29, Section 9C....   | <u>-</u>             | <u>(17,386)</u>      |
| Total budgeted revenues and expenditures per Legislative action .....  | 27,841,100           | 26,955,559           |
| Plus: Transfers of revenues and expenditures (including rounding)...   | <u>-</u>             | <u>2,544,000</u>     |
| Budgeted revenues and expenditures as reported .....   | <u>\$ 27,841,100</u> | <u>\$ 29,499,559</u> |

As the budget is not passed taking into account the structure of funds, but of appropriations, reports contained within the Commonwealth's MMARS accounting system demonstrate budgetary compliance by appropriation. Those reports are available upon request at the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

## Schedule of Pension Funding Progress Last Ten Fiscal Years

(Amounts in thousands except for percentages)

|   | Actuarial Value of<br>Plan Assets | Actuarial Accrued<br>Liability | Unfunded Actuarial<br>Liability (UAAL) | Funded<br>Ratio | Annual<br>Covered Payroll * | UAAL<br>as a % of<br>Covered Payroll * |
|---|-----------------------------------|--------------------------------|--|-----------------|-----------------------------|--|
| <b>State Employees Retirement System</b>    |                                   |                                |  |                 |                             |  |
| Actuarial Valuation as of January 1, 2007.. | \$ 18,445,225                     | \$ 21,670,810                  | \$ 3,225,585                           | 85.1%           | \$ 4,391,839                | 73.4%                                  |
| Actuarial Valuation as of January 1, 2006.. | 16,638,043                        | 20,406,926                     | 3,768,883                              | 81.5%           | 4,200,577                   | 89.7%                                  |
| Actuarial Valuation as of January 1, 2005.. | 16,211,000                        | 19,575,000                     | 3,364,000                              | 82.8%           | 3,967,000                   | 84.8%                                  |
| Actuarial Valuation as of January 1, 2004.. | 15,931,000                        | 18,966,000                     | 3,065,000                              | 84.0%           | 3,842,000                   | 79.8%                                  |
| Actuarial Valuation as of January 1, 2003.. | 13,947,000                        | 17,551,000                     | 3,604,000                              | 79.5%           | 3,779,000                   | 95.4%                                  |
| Actuarial Valuation as of January 1, 2002.. | 15,002,000                        | 15,961,000                     | 959,000                                | 94.0%           | 4,034,000                   | 23.8%                                  |
| Actuarial Valuation as of January 1, 2001.. | 13,922,000                        | 15,170,000                     | 1,248,000                              | 91.8%           | 3,700,000                   | 33.7%                                  |
| Actuarial Valuation as of January 1, 2000.. | 13,364,000                        | 14,138,000                     | 773,000                                | 94.5%           | 3,472,000                   | 22.3%                                  |
| Actuarial Valuation as of January 1, 1998.. | 9,914,000                         | 11,361,000                     | 1,447,000                              | 87.3%           | 3,111,000                   | 46.5%                                  |
| <b>Teachers' Retirement System</b>          |                                   |                                |  |                 |                             |  |
| Actuarial Valuation as of January 1, 2007.. | \$ 20,820,392                     | \$ 29,320,714                  | \$ 8,500,322                           | 71.0%           | \$ 4,969,092                | 171.1%                                 |
| Actuarial Valuation as of January 1, 2006.. | 18,683,295                        | 27,787,716                     | 9,104,421                              | 67.2%           | 4,819,325                   | 188.9%                                 |
| Actuarial Valuation as of January 1, 2005.. | 17,683,000                        | 26,167,000                     | 8,483,000                              | 67.6%           | 4,643,000                   | 182.7%                                 |
| Actuarial Valuation as of January 1, 2004.. | 17,075,000                        | 24,519,000                     | 7,444,000                              | 69.6%           | 4,556,000                   | 163.4%                                 |
| Actuarial Valuation as of January 1, 2003.. | 14,762,000                        | 22,892,000                     | 8,129,000                              | 64.5%           | 4,406,000                   | 184.5%                                 |
| Actuarial Valuation as of January 1, 2002.. | 15,712,000                        | 20,620,000                     | 4,908,000                              | 76.2%           | 4,264,000                   | 115.1%                                 |
| Actuarial Valuation as of January 1, 2001.. | 14,390,000                        | 18,170,000                     | 3,779,000                              | 79.2%           | 4,072,000                   | 92.8%                                  |
| Actuarial Valuation as of January 1, 2000.. | 13,681,000                        | 16,420,000                     | 2,739,000                              | 83.3%           | 3,704,000                   | 73.9%                                  |
| Actuarial Valuation as of January 1, 1998.. | 10,170,000                        | 13,095,000                     | 2,925,000                              | 77.7%           | 3,175,000                   | 92.1%                                  |

\* The covered payroll amount approximate the employer payroll

# *Other Supplementary Information*

*Combined Balance Sheet – Other Governmental Funds*

*Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Other Governmental Funds*

*Combining Statement of Net Assets Available for Pension Benefits*

*Combining Statement of Changes in Net Assets Available for Pension Benefits*

*Combining Statement of Net Assets Held in Trust for Pool Participants*

*Combining Statement of Changes in Net Assets Held in Trust for Pool Participants*

*Combining Statement of Changes in Assets and Liabilities – Agency Funds*

*Combining Statement of Net Assets – Nonmajor Component Units*



*Riverways staff educating volunteers on stream flow measurement techniques.*

## **Scituate's Herring Re-Run**

The Massachusetts Riverways Project began working with the First Herring Brook Watershed Initiative in Scituate in 2004 to document the amount of water entering the town's water supply reservoir system. The serious low flow problems that were uncovered are suspected to be the main reason that the First Herring Brook no longer supports a herring run. The Town's Selectboard, Water Resources Committee and water department became energized by the potential environmental, historic and economic benefits of restoring the run and have teamed up with Riverways, the First Herring Brook Watershed Initiative and the North and South Rivers Watershed Association to begin crafting a water resource management plan that will provide enough water for town needs as well as adequate seasonal stream flow for the Brook. With help along the way from the Division of Marine Fisheries, the US Fish and Wildlife Service, and the National Oceanic and Atmospheric Administration, Riverways is currently assisting the town in planning hydrologic models to test the effects of various water management alternatives on their ability to provide enough flow to the river to bring herring and a healthy, native aquatic community back to First Herring Brook.

**Combined Balance Sheet**  
**Other Governmental Funds**  
**June 30, 2007**  
**(Amounts in thousands)**

|   | Special<br>Revenue |                          |                  |                                       |   |   |  |                   |
|---|--------------------|--------------------------|------------------|---------------------------------------|---|---|--|-------------------|
|   | Federal<br>Grants  | Universal<br>Health Care | Environmental    | Health Care<br>Security<br>Trust Fund | Convention<br>and Exhibition<br>Center Fund | Grant<br>Anticipated Note<br>Trust Fund | Public Purpose<br>Expendable<br>Trust Fund | Other             |
| ASSETS  |                    |                          |                  |                                       |   |   |  |                   |
| Cash and short-term investments.....  | \$ -               | \$ 403,423               | \$ 14,053        | \$ 7,365                              | \$ 88,858                                   | \$ 11,509                               | \$ 442,795                                 | \$ 293,832        |
| Cash with fiscal agent.....   | -                  | -                        | -                | -                                     | 83,999                                      | 619,044                                 | -  | -                 |
| Investments and restricted investments.....                                     | -                  | -                        | -                | 552,515                               | -   | -                                       | -  | -                 |
| Receivables, net of allowance for uncollectibles:                               |                    |                          |                  |                                       |   |   |  |                   |
| Taxes.....  | -                  | -                        | 77               | -                                     | 9,881                                       | -                                       | 2  | 61,312            |
| Due from federal government.....  | 333,293            | -                        | 542              | -                                     | -   | 74,582                                  | 1,375                                      | 2,753             |
| Other receivables.....  | -                  | 25,505                   | 576              | 180,585                               | -   | -                                       | 35,828                                     | 8,003             |
| Due from cities and towns.....  | -                  | -                        | -                | -                                     | -   | -                                       | -  | 51,522            |
| Due from other funds.....   | -                  | -                        | -                | -                                     | -   | -                                       | -  | -                 |
| <b>Total assets.....</b>  | <b>\$ 333,293</b>  | <b>\$ 428,928</b>        | <b>\$ 15,248</b> | <b>\$ 740,465</b>                     | <b>\$ 182,738</b>                           | <b>\$ 705,135</b>                       | <b>\$ 480,000</b>                          | <b>\$ 417,422</b> |
| LIABILITIES AND FUND BALANCES   |                    |                          |                  |                                       |   |   |  |                   |
| Liabilities:  |                    |                          |                  |                                       |   |   |  |                   |
| Accounts payable.....   | \$ 227,203         | \$ 137,230               | \$ 527           | \$ 85,729                             | \$ 8,529                                    | \$ -                                    | \$ 53,640                                  | \$ 139,056        |
| Accrued payroll.....  | 4,252              | 33                       | 116              | 3                                     | -   | -                                       | 858  | 713               |
| Due to other funds.....   | 100,520            | -                        | -                | -                                     | -   | 74,582                                  | 5,292                                      | -                 |
| Due to component units.....   | -                  | -                        | -                | -                                     | -   | -                                       | -  | 105,392           |
| Due to federal government.....  | -                  | -                        | -                | -                                     | -   | -                                       | -  | -                 |
| Deferred inflows of resources.....  | -                  | 6,120                    | -                | -                                     | -   | -                                       | 3,000                                      | 726               |
| Claims and judgments.....   | -                  | -                        | -                | -                                     | -   | -                                       | -  | -                 |
| Other accrued liabilities.....  | -                  | 156,002                  | -                | -                                     | -   | -                                       | -  | -                 |
| <b>Total liabilities.....</b>   | <b>331,975</b>     | <b>299,385</b>           | <b>643</b>       | <b>85,732</b>                         | <b>8,529</b>                                | <b>74,582</b>                           | <b>62,790</b>                              | <b>245,887</b>    |
| Fund balances (deficits):   |                    |                          |                  |                                       |   |   |  |                   |
| Reserved for retirement of indebtedness.....                                    | -                  | -                        | -                | -                                     | 53,766                                      | 619,044                                 | -  | -                 |
| Reserved for central artery workers' compensation<br>and general liability..... | -                  | -                        | -                | -                                     | -   | -                                       | -  | -                 |
| Amounts due from Municipalities.....  | -                  | -                        | -                | -                                     | -   | -                                       | -  | 51,522            |
| Unreserved:   |                    |                          |                  |                                       |   |   |  |                   |
| Designated for reappropriated accounts, reported in:                            |                    |                          |                  |                                       |   |   |  |                   |
| Special revenue.....  | -                  | -                        | -                | -                                     | -   | -                                       | -  | 20,995            |
| Capital projects.....   | -                  | -                        | -                | -                                     | -   | -                                       | -  | -                 |
| Undesignated:   |                    |                          |                  |                                       |   |   |  |                   |
| Special revenue.....  | 1,318              | 129,543                  | 14,605           | 654,733                               | 120,443                                     | 11,509                                  | 417,210                                    | 99,018            |
| Capital projects.....   | -                  | -                        | -                | -                                     | -   | -                                       | -  | -                 |
| Permanent trust funds.....  | -                  | -                        | -                | -                                     | -   | -                                       | -  | -                 |
| <b>Fund balances (deficits).....</b>  | <b>1,318</b>       | <b>129,543</b>           | <b>14,605</b>    | <b>654,733</b>                        | <b>174,209</b>                              | <b>630,553</b>                          | <b>417,210</b>                             | <b>171,535</b>    |
| <b>Total liabilities and fund balances.....</b>                                 | <b>\$ 333,293</b>  | <b>\$ 428,928</b>        | <b>\$ 15,248</b> | <b>\$ 740,465</b>                     | <b>\$ 182,738</b>                           | <b>\$ 705,135</b>                       | <b>\$ 480,000</b>                          | <b>\$ 417,422</b> |

| Capital Projects  |                                |  |                                  |                             |                          |                   |                 |                     |
|-------------------|--------------------------------|--|----------------------------------|-----------------------------|--------------------------|-------------------|-----------------|---------------------|
| Debt Service      | General Capital Projects Funds | Central Artery Statewide Roads and Bridges | Convention and Exhibition Center | Capital Expenditure Reserve | Highway Capital Projects | Other             | Permanent Trust | Total               |
| \$ -              | \$ -                           | \$ 120,585                                 | \$ 11,893                        | \$ -                        | \$ -                     | \$ 4,927          | \$ 5,000        | \$ 1,404,240        |
| 257,672           | -                              | -  | -                                | -                           | -                        | 131,996           | -               | 1,092,711           |
| -                 | -                              | -  | -                                | -                           | -                        | -                 | -               | 552,515             |
| -                 | -                              | -  | -                                | -                           | -                        | -                 | -               | 71,272              |
| -                 | 1,577                          | -  | -                                | -                           | -                        | -                 | -               | 414,122             |
| -                 | -                              | -  | -                                | -                           | -                        | 1,498             | -               | 251,995             |
| -                 | -                              | -  | -                                | -                           | -                        | -                 | -               | 51,522              |
| -                 | -                              | -  | -                                | -                           | -                        | 74,582            | -               | 74,582              |
| <b>\$ 257,672</b> | <b>\$ 1,577</b>                | <b>\$ 120,585</b>                          | <b>\$ 11,893</b>                 | <b>\$ -</b>                 | <b>\$ -</b>              | <b>\$ 213,003</b> | <b>\$ 5,000</b> | <b>3,912,959</b>    |
|                   |                                |  |                                  |                             |                          |                   |                 |                     |
| \$ -              | \$ 120,966                     | \$ 8,807                                   | \$ -                             | \$ 3,625                    | \$ 50,975                | \$ 105,385        | \$ -            | \$ 941,672          |
| -                 | 705                            | -  | -                                | -                           | 1,953                    | 35                | -               | 8,668               |
| -                 | 44,369                         | -  | -                                | 17,760                      | 113,149                  | 15,000            | -               | 370,672             |
| -                 | -                              | -  | -                                | -                           | -                        | -                 | -               | 105,392             |
| -                 | -                              | -  | -                                | -                           | -                        | 51                | -               | 51                  |
| -                 | -                              | -  | -                                | -                           | -                        | -                 | -               | 9,846               |
| -                 | -                              | -  | -                                | -                           | -                        | 16,200            | -               | 16,200              |
| -                 | -                              | -  | -                                | -                           | -                        | -                 | -               | 156,002             |
| -                 | <b>166,040</b>                 | <b>8,807</b>                               | -                                | <b>21,385</b>               | <b>166,077</b>           | <b>136,671</b>    | -               | <b>1,608,503</b>    |
|                   |                                |  |                                  |                             |                          |                   |                 |                     |
| 257,672           | -                              | -  | -                                | -                           | -                        | -                 | -               | 930,482             |
| -                 | -                              | -  | -                                | -                           | -                        | 100,063           | -               | 100,063             |
| -                 | -                              | -  | -                                | -                           | -                        | -                 | -               | 51,522              |
| -                 | -                              | -  | -                                | -                           | -                        | -                 | -               | 20,995              |
| -                 | -                              | 111,778                                    | 11,893                           | -                           | -                        | 4,377             | -               | 128,048             |
| -                 | -                              | -  | -                                | -                           | -                        | -                 | -               | 1,448,379           |
| -                 | (164,463)                      | -  | -                                | (21,385)                    | (166,077)                | (28,108)          | -               | (380,033)           |
| -                 | -                              | -  | -                                | -                           | -                        | -                 | 5,000           | 5,000               |
| <b>257,672</b>    | <b>(164,463)</b>               | <b>111,778</b>                             | <b>11,893</b>                    | <b>(21,385)</b>             | <b>(166,077)</b>         | <b>76,332</b>     | <b>5,000</b>    | <b>2,304,456</b>    |
| <b>\$ 257,672</b> | <b>\$ 1,577</b>                | <b>\$ 120,585</b>                          | <b>\$ 11,893</b>                 | <b>\$ -</b>                 | <b>\$ -</b>              | <b>\$ 213,003</b> | <b>\$ 5,000</b> | <b>\$ 3,912,959</b> |

# Combined Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds  
Fiscal Year Ended June 30, 2007  
(Amounts in thousands)

|  | Special Revenue  |                       |                  |                                 |                                       |                                   |                                      |                   |
|--|------------------|-----------------------|------------------|---------------------------------|---------------------------------------|-----------------------------------|--------------------------------------|-------------------|
|  | Federal Grants   | Universal Health Care | Environmental    | Health Care Security Trust Fund | Convention and Exhibition Center Fund | Grant Anticipated Note Trust Fund | Public Purpose Expendable Trust Fund | Other             |
| <b>REVENUES</b>  |                  |                       |                  |                                 |                                       |                                   |                                      |                   |
| Taxes.....   | \$ -             | \$ -                  | \$ 896           | \$ -                            | \$ 67,326                             | \$ -                              | \$ (8)                               | \$ 840,952        |
| Assessments.....   | -                | 332,021               | -                | 146,619                         | -                                     | -                                 | 51,830                               | 171,821           |
| Federal grants and reimbursements.....   | 2,488,521        | -                     | 6,151            | 145,288                         | -                                     | 462,484                           | 16,881                               | 27,066            |
| Departmental.....  | -                | 49,831                | 7,433            | 22,341                          | -                                     | -                                 | 67,537                               | 73,233            |
| Miscellaneous.....   | 474              | 7,768                 | 69               | 309,408                         | 7,366                                 | 18,697                            | 323,979                              | 22,450            |
| <b>Total revenues.....</b>   | <b>2,488,995</b> | <b>389,620</b>        | <b>14,549</b>    | <b>623,656</b>                  | <b>74,692</b>                         | <b>481,181</b>                    | <b>460,219</b>                       | <b>1,135,522</b>  |
| <b>OTHER FINANCING SOURCES</b>   |                  |                       |                  |                                 |                                       |                                   |                                      |                   |
| Bonds premium.....   | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | -                 |
| Proceeds of general obligation bonds.....  | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | -                 |
| Proceeds of refunding bonds.....   | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | -                 |
| Transfers in for debt service.....   | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | -                 |
| Operating transfers in.....  | 814              | 1,423,761             | 132              | -                               | -                                     | 60,995                            | 10,162                               | 334,516           |
| <b>Total other financing sources.....</b>  | <b>814</b>       | <b>1,423,761</b>      | <b>132</b>       | <b>-</b>                        | <b>-</b>                              | <b>60,995</b>                     | <b>10,162</b>                        | <b>334,516</b>    |
| <b>Total revenues and other financing sources.....</b>   | <b>2,489,809</b> | <b>1,813,381</b>      | <b>14,681</b>    | <b>623,656</b>                  | <b>74,692</b>                         | <b>542,176</b>                    | <b>470,381</b>                       | <b>1,470,038</b>  |
| <b>EXPENDITURES</b>  |                  |                       |                  |                                 |                                       |                                   |                                      |                   |
| Current:   |                  |                       |                  |                                 |                                       |                                   |                                      |                   |
| Judiciary.....   | 566              | -                     | -                | -                               | -                                     | -                                 | 219                                  | 1,804             |
| Inspector General.....   | -                | 137                   | -                | -                               | -                                     | -                                 | -                                    | -                 |
| Secretary of the Commonwealth.....   | 631              | -                     | -                | -                               | -                                     | -                                 | 18                                   | 5,726             |
| Treasurer and Receiver-General.....  | 1,047            | 1                     | -                | -                               | -                                     | -                                 | 67,076                               | 893,491           |
| Auditor of the Commonwealth.....   | -                | -                     | -                | -                               | -                                     | -                                 | 78                                   | -                 |
| Attorney General.....  | 9,254            | -                     | -                | -                               | -                                     | -                                 | 5,399                                | 397               |
| District Attorney.....   | 2,578            | -                     | -                | -                               | -                                     | -                                 | 5,897                                | 162               |
| Office campaign and political finance.....   | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | 1,339             |
| Sheriff's Departments.....   | 2,809            | -                     | -                | -                               | -                                     | -                                 | 611                                  | -                 |
| Board of Library Commissioners.....  | 2,975            | -                     | -                | -                               | -                                     | -                                 | 98                                   | -                 |
| Comptroller.....   | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | 1,740             |
| Administration and finance.....  | 15,954           | -                     | -                | 9                               | 33,645                                | -                                 | 10,058                               | 109,731           |
| Energy and environmental affairs.....  | 32,724           | -                     | 10,094           | -                               | -                                     | -                                 | 33,546                               | 18,615            |
| Housing and community development.....   | 298,032          | -                     | -                | -                               | -                                     | -                                 | 7,135                                | 1,882             |
| Early education and care.....  | 10,690           | -                     | -                | -                               | -                                     | -                                 | -                                    | 214               |
| Health and human services.....   | 876,606          | 1,495,741             | -                | 480                             | -                                     | -                                 | 31,668                               | 30,282            |
| Transportation and public works.....   | 10,276           | -                     | -                | -                               | -                                     | -                                 | 421                                  | 33,167            |
| Education.....   | 805,516          | -                     | -                | -                               | -                                     | -                                 | 5,004                                | -                 |
| Higher education.....  | 5,544            | -                     | -                | -                               | -                                     | -                                 | 5,720                                | 804               |
| Public safety and homeland security.....   | 81,999           | -                     | -                | -                               | -                                     | -                                 | 58,914                               | 2,012             |
| Housing and economic development.....  | 199,030          | 18,459                | -                | -                               | -                                     | -                                 | 46,447                               | 79,747            |
| Labor and workforce development.....   | 39,246           | 7,239                 | -                | -                               | -                                     | -                                 | 13,366                               | 9,050             |
| Medicaid.....  | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | 290,459           |
| Direct local aid.....  | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | 7,653             |
| Capital outlay:  |                  |                       |                  |                                 |                                       |                                   |                                      |                   |
| Local aid.....   | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | -                 |
| Capital acquisition and construction.....  | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | -                 |
| Debt service.....  | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | -                 |
| <b>Total expenditures.....</b>   | <b>2,395,477</b> | <b>1,521,577</b>      | <b>10,094</b>    | <b>489</b>                      | <b>33,645</b>                         | <b>-</b>                          | <b>291,675</b>                       | <b>1,488,275</b>  |
| <b>OTHER FINANCING USES</b>  |                  |                       |                  |                                 |                                       |                                   |                                      |                   |
| Payments to refunded bond escrow agent.....  | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | -                 |
| Operating transfers out.....   | 95,769           | 305,409               | 1,787            | 564,853                         | -                                     | 332,244                           | 140,728                              | 37,659            |
| Transfers of bond proceeds.....  | -                | -                     | -                | -                               | -                                     | -                                 | -                                    | -                 |
| Transfers out for debt service.....  | -                | -                     | -                | -                               | 34,486                                | 211,712                           | -                                    | 9,011             |
| <b>Total other financing uses.....</b>   | <b>95,769</b>    | <b>305,409</b>        | <b>1,787</b>     | <b>564,853</b>                  | <b>34,486</b>                         | <b>543,956</b>                    | <b>140,728</b>                       | <b>46,670</b>     |
| <b>Total expenditures and other financing uses.....</b>  | <b>2,491,246</b> | <b>1,826,986</b>      | <b>11,881</b>    | <b>565,342</b>                  | <b>68,131</b>                         | <b>543,956</b>                    | <b>432,403</b>                       | <b>1,534,945</b>  |
| <b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b> | <b>(1,437)</b>   | <b>(13,605)</b>       | <b>2,800</b>     | <b>58,314</b>                   | <b>6,561</b>                          | <b>(1,780)</b>                    | <b>37,978</b>                        | <b>(64,907)</b>   |
| Fund balances (deficits) at beginning of year.....   | 2,754            | 143,148               | 11,805           | 596,419                         | 167,648                               | 632,333                           | 379,232                              | 236,442           |
| <b>Fund balances (deficits) at end of year.....</b>  | <b>\$ 1,318</b>  | <b>\$ 129,543</b>     | <b>\$ 14,605</b> | <b>\$ 654,733</b>               | <b>\$ 174,209</b>                     | <b>\$ 630,553</b>                 | <b>\$ 417,210</b>                    | <b>\$ 171,535</b> |

| Debt Service      | Capital Projects               |  |                                  |                             |                          |                  | Permanent Trust | Total               |
|-------------------|--------------------------------|--|----------------------------------|-----------------------------|--------------------------|------------------|-----------------|---------------------|
|                   | General Capital Projects Funds | Central Artery Statewide Roads and Bridges | Convention and Exhibition Center | Capital Expenditure Reserve | Highway Capital Projects | Other            |                 |                     |
| \$ -              | \$ -                           | \$ -                                       | \$ -                             | \$ -                        | \$ -                     | \$ -             | \$ -            | \$ 909,166          |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 702,291             |
| -                 | 23,968                         | -  | -                                | -                           | -                        | 913              | -               | 3,171,272           |
| -                 | -                              | -  | -                                | -                           | -                        | 452              | -               | 220,827             |
| 51,579            | 2,473                          | 6,811                                      | -                                | 25,100                      | (5)                      | 30,187           | -               | 806,356             |
| <b>51,579</b>     | <b>26,441</b>                  | <b>6,811</b>                               | <b>-</b>                         | <b>25,100</b>               | <b>(5)</b>               | <b>31,552</b>    | <b>-</b>        | <b>5,809,912</b>    |
| 52,448            | -                              | -  | -                                | -                           | -                        | -                | -               | 52,448              |
| -                 | 841,768                        | -  | -                                | -                           | 733,530                  | 28,642           | -               | 1,603,940           |
| 1,427,835         | -                              | -  | -                                | -                           | -                        | -                | -               | 1,427,835           |
| 2,339,662         | -                              | -  | -                                | -                           | -                        | -                | -               | 2,339,662           |
| -                 | -                              | 26,281                                     | -                                | -                           | -                        | 543,418          | -               | 2,400,079           |
| <b>3,819,945</b>  | <b>841,768</b>                 | <b>26,281</b>                              | <b>-</b>                         | <b>-</b>                    | <b>733,530</b>           | <b>572,060</b>   | <b>-</b>        | <b>7,823,964</b>    |
| <b>3,871,524</b>  | <b>868,209</b>                 | <b>33,092</b>                              | <b>-</b>                         | <b>25,100</b>               | <b>733,525</b>           | <b>603,612</b>   | <b>-</b>        | <b>13,633,876</b>   |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 2,589               |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 137                 |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 6,375               |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 961,615             |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 78                  |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 15,050              |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 8,637               |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 1,339               |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 3,420               |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 3,073               |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 1,740               |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 169,397             |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 94,979              |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 307,049             |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 10,904              |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 2,434,777           |
| -                 | -                              | -  | -                                | -                           | -                        | 20,810           | -               | 64,674              |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 810,520             |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 12,068              |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 142,925             |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 343,683             |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 68,901              |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 290,459             |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 7,653               |
| -                 | -                              | -  | -                                | -                           | -                        | 9,342            | -               | 9,342               |
| -                 | 653,231                        | 26,007                                     | 2,201                            | 48,610                      | 419,823                  | 573,990          | -               | 1,723,862           |
| <b>2,351,818</b>  | <b>-</b>                       | <b>-</b>                                   | <b>-</b>                         | <b>-</b>                    | <b>-</b>                 | <b>-</b>         | <b>-</b>        | <b>2,351,818</b>    |
| <b>2,351,818</b>  | <b>653,231</b>                 | <b>26,007</b>                              | <b>2,201</b>                     | <b>48,610</b>               | <b>419,823</b>           | <b>604,142</b>   | <b>-</b>        | <b>9,847,063</b>    |
| 1,520,290         | -                              | -  | -                                | -                           | -                        | -                | -               | 1,520,290           |
| 700               | 8,935                          | 29   | -                                | -                           | 232,155                  | 7,700            | -               | 1,727,968           |
| -                 | 48,909                         | -  | -                                | -                           | -                        | -                | -               | 48,909              |
| -                 | -                              | -  | -                                | -                           | -                        | -                | -               | 255,209             |
| <b>1,520,990</b>  | <b>57,844</b>                  | <b>29</b>                                  | <b>-</b>                         | <b>-</b>                    | <b>232,155</b>           | <b>7,700</b>     | <b>-</b>        | <b>3,552,376</b>    |
| <b>3,872,808</b>  | <b>711,075</b>                 | <b>26,036</b>                              | <b>2,201</b>                     | <b>48,610</b>               | <b>651,978</b>           | <b>611,842</b>   | <b>-</b>        | <b>13,399,439</b>   |
| (1,284)           | 157,134                        | 7,056                                      | (2,201)                          | (23,510)                    | 81,547                   | (8,230)          | -               | 234,437             |
| 258,955           | (321,597)                      | 104,722                                    | 14,094                           | 2,125                       | (247,624)                | 84,562           | 5,000           | 2,070,018           |
| <b>\$ 257,672</b> | <b>\$ (164,463)</b>            | <b>\$ 111,778</b>                          | <b>\$ 11,893</b>                 | <b>\$ (21,385)</b>          | <b>\$ (166,077)</b>      | <b>\$ 76,332</b> | <b>\$ 5,000</b> | <b>\$ 2,304,456</b> |



## Combining Statement of Net Assets Available for Pension Benefits

Pension Trust Funds

June 30, 2007

(Amounts in thousands)

|  | State<br>Employees'<br>PERS | Teachers'<br>PERS    | Total                |
|--|-----------------------------|----------------------|----------------------|
| <b>ASSETS</b>  |                             |                      |                      |
| Cash and short-term investments.....   | \$ 18,595                   | \$ 10,513            | \$ 29,108            |
| Investments at fair value.....   | 21,760,039                  | 24,569,519           | 46,329,558           |
| Other receivables.....   | 76,880                      | -                    | 76,880               |
| <b>Total assets.....</b>   | <b>21,855,514</b>           | <b>24,580,032</b>    | <b>46,435,546</b>    |
| <b>LIABILITIES</b>   |                             |                      |                      |
| Accounts payable.....  | 1,726                       | 1,545                | 3,271                |
| <b>Total liabilities.....</b>  | <b>1,726</b>                | <b>1,545</b>         | <b>3,271</b>         |
| <b>Net assets available for pension benefits (fund balances<br/>reserved for employees' pension benefits).....</b> | <b>\$ 21,853,788</b>        | <b>\$ 24,578,487</b> | <b>\$ 46,432,275</b> |

**Combining Statement of Changes in Net Assets Available for Pension Benefits**  
Pension Trust Funds  
Fiscal Year Ended June 30, 2007  
(Amounts in thousands)

|  | State<br>Employees'<br>PERS | Teachers'<br>PERS    | Total                |
|--|-----------------------------|----------------------|----------------------|
| <b>ADDITIONS</b>   |                             |                      |                      |
| Contribution:  |                             |                      |                      |
| Employer contributions.....  | \$ 475,634                  | \$ 860,113           | \$ 1,335,747         |
| Employee contributions.....  | 227,511                     | 303,516              | 531,027              |
| <b>Total contributions.....</b>  | <b>703,145</b>              | <b>1,163,629</b>     | <b>1,866,774</b>     |
| Net investment income:   |                             |                      |                      |
| Net appreciation in fair value.....  | 4,280,763                   | 3,602,784            | 7,883,547            |
| <b>Total investment income.....</b>  | <b>4,280,763</b>            | <b>3,602,784</b>     | <b>7,883,547</b>     |
| Less: investment expense.....  | -                           | -                    | -                    |
| <b>Net investment income.....</b>  | <b>4,280,763</b>            | <b>3,602,784</b>     | <b>7,883,547</b>     |
| <b>Total additions.....</b>  | <b>4,983,908</b>            | <b>4,766,413</b>     | <b>9,750,321</b>     |
| <b>DEDUCTIONS</b>  |                             |                      |                      |
| Administration.....  | 7,037                       | 15,327               | 22,364               |
| Retirement benefits and refunds.....   | 1,266,313                   | 1,686,373            | 2,952,686            |
| <b>Total deductions.....</b>   | <b>1,273,350</b>            | <b>1,701,700</b>     | <b>2,975,050</b>     |
| <b>Net increase.....</b>   | <b>3,710,558</b>            | <b>3,064,713</b>     | <b>6,775,271</b>     |
| Net assets available for pension benefits<br>at beginning of year (fund balances reserved<br>for employees' pension benefits re-stated)..... | 18,143,230                  | 21,513,774           | 39,657,004           |
| <b>Net assets available for pension benefits<br/>at end of year (fund balances reserved<br/>for employees' pension benefits).....</b>        | <b>\$ 21,853,788</b>        | <b>\$ 24,578,487</b> | <b>\$ 46,432,275</b> |

# Combining Statement of Net Assets Held in Trust for Pool Participants

External Investment Trust Funds

June 30, 2007

(Amounts in thousands)

|  | Massachusetts<br>Municipal<br>Depository<br>Trust | Pension<br>Reserves<br>Investment<br>Trust | Total               |
|--|---|--|---------------------|
| <b>ASSETS</b>  |   |  |                     |
| Assets held in trust for pension benefits:   |   |  |                     |
| Cash and short-term investments.....   | \$ -  | \$ 1,679,099                               | \$ 1,679,099        |
| Investments at fair value.....   | -   | 3,490,921                                  | 3,490,921           |
| Assets held in trust for pool participants:  |   |  |                     |
| Cash and short-term investments.....   | 3,194,551   | -  | 3,194,551           |
| Other receivables.....   | 15,896  | 1,385,777                                  | 1,401,673           |
| <b>Total assets.....</b>   | <b>3,210,447</b>                                  | <b>6,555,797</b>                           | <b>9,766,244</b>    |
| <b>LIABILITIES</b>   |   |  |                     |
| Liabilities:   |   |  |                     |
| Accounts payable.....  | 27,562  | 2,589,938                                  | 2,617,500           |
| Other accrued liabilities.....   | 284   | -  | 284                 |
| <b>Total liabilities.....</b>  | <b>27,846</b>                                     | <b>2,589,938</b>                           | <b>2,617,784</b>    |
| <b>Net assets held in trust for pool/pension participants<br/>(fund balance reserved for investment pool/employee<br/>pension benefits).....</b> | <b>\$ 3,182,601</b>                               | <b>\$ 3,965,859</b>                        | <b>\$ 7,148,460</b> |

# Combining Statement of Changes in Net Assets Held in Trust for Pool Participants

External Investment Trust Funds

Fiscal Year Ended June 30, 2007

(Amounts in thousands)

|   | Massachusetts<br>Municipal<br>Depository<br>Trust | Pension<br>Reserves<br>Investment<br>Trust | Total               |
|---|---|--|---------------------|
| <b>ADDITIONS</b>  |   |  |                     |
| Contribution:   |   |  |                     |
| Proceeds from sale of units.....  | \$ 10,585,236                                     | \$ 1,296,991                               | \$ 11,882,227       |
| Units issued - reinvestment of distributions.....   | 108,492   | -  | 108,492             |
| <b>Total contributions.....</b>   | <b>10,693,728</b>                                 | <b>1,296,991</b>                           | <b>11,990,719</b>   |
| Net investment income:  |   |  |                     |
| Net appreciation in fair value of investments.....  | -   | 345,235                                    | 345,235             |
| Interest.....   | 155,591   | -  | 155,591             |
| <b>Total investment income.....</b>   | <b>155,591</b>                                    | <b>345,235</b>                             | <b>500,826</b>      |
| Less: Management fees.....  | 2,633   | -  | 2,633               |
| <b>Net investment income.....</b>   | <b>152,958</b>                                    | <b>345,235</b>                             | <b>498,193</b>      |
| <b>Total additions.....</b>   | <b>10,846,686</b>                                 | <b>1,642,226</b>                           | <b>12,488,912</b>   |
| <b>DEDUCTIONS</b>   |   |  |                     |
| Cost of units redeemed.....   | 9,621,173   | -  | 9,621,173           |
| Distributions to unit holders from net interest income.....   | 143,268   | -  | 143,268             |
| Retirement benefits and refunds.....  | -   | 36,250                                     | 36,250              |
| <b>Total deductions.....</b>  | <b>9,764,441</b>                                  | <b>36,250</b>                              | <b>9,800,691</b>    |
| <b>Net increase.....</b>  | <b>1,082,245</b>                                  | <b>1,605,976</b>                           | <b>2,688,221</b>    |
| Net assets held in trust for pool participants/pensions at beginning of year<br>(fund balance reserved for investment pool participants/employees' pension<br>benefit re-stated)..... | 2,100,356   | 2,359,883                                  | 4,460,239           |
| <b>Net assets held in trust for pool participants/pensions at end of year<br/>(fund balance reserved for investment pool participants/<br/>employees' pension benefit).....</b>       | <b>\$ 3,182,601</b>                               | <b>\$ 3,965,859</b>                        | <b>\$ 7,148,460</b> |

# Combining Statement of Changes in Assets and Liabilities

## Agency Funds

Fiscal Year Ended June 30, 2007

(Amounts in thousands)

|  | Balance<br>July 1, 2006 | Additions           | Deductions          | Balance<br>June 30, 2007 |
|--|-------------------------|---------------------|---------------------|--------------------------|
| <b><u>Central Agency Funds</u></b>                             |                         |                     |                     |                          |
| <b>ASSETS</b>  |                         |                     |                     |                          |
| Cash and short-term investments.....                           | \$ 347,600              | \$ 7,599,404        | \$ 7,596,434        | \$ 350,570               |
| Investments, restricted investments and annuity contracts..... | 1,429,952               | 210,654             | 228,792             | 1,411,814                |
| Assets held in trust.....                                      | 1,647                   | 930                 | 1,647               | 930                      |
| Taxes receivable.....  | 40,060                  | -                   | 40,060              | -                        |
| <b>Total assets.....</b>                                       | <b>\$ 1,819,259</b>     | <b>\$ 7,810,988</b> | <b>\$ 7,866,933</b> | <b>\$ 1,763,314</b>      |

## LIABILITIES

|                                |                     |                     |                     |                     |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| Accounts payable.....          | \$ 59,453           | \$ 3,491,844        | \$ 3,474,370        | \$ 76,927           |
| Due to cities and towns.....   | 47,095              | 435,089             | 430,619             | 51,565              |
| Due to federal government..... | -                   | 47                  | 47                  | -                   |
| Lottery prizes payable.....    | 1,429,952           | 210,654             | 228,792             | 1,411,814           |
| Agency liabilities.....        | 282,759             | 3,473,156           | 3,532,907           | 223,008             |
| <b>Total liabilities.....</b>  | <b>\$ 1,819,259</b> | <b>\$ 7,610,790</b> | <b>\$ 7,666,735</b> | <b>\$ 1,763,314</b> |

## Court Escrow and Client Accounts

## ASSETS

|                                      |                   |                     |                     |                   |
|--------------------------------------|-------------------|---------------------|---------------------|-------------------|
| Cash and short-term investments..... | \$ 82,743         | \$ 1,170,414        | \$ 1,159,710        | \$ 93,447         |
| Assets held in trust.....            | 50,194            | 31,811              | 28,386              | 53,619            |
| Other receivables.....               | 94,145            | 97,740              | 94,145              | 97,740            |
| <b>Total assets.....</b>             | <b>\$ 227,082</b> | <b>\$ 1,299,965</b> | <b>\$ 1,282,241</b> | <b>\$ 244,806</b> |

## LIABILITIES

|                               |                   |                     |                     |                   |
|-------------------------------|-------------------|---------------------|---------------------|-------------------|
| Accounts payable.....         | \$ 136            | \$ 1,067,384        | \$ 1,067,365        | \$ 155            |
| Agency liabilities.....       | 226,946           | 676,747             | 659,042             | 244,651           |
| <b>Total liabilities.....</b> | <b>\$ 227,082</b> | <b>\$ 1,744,131</b> | <b>\$ 1,726,407</b> | <b>\$ 244,806</b> |

## Statutory Bonds and Deposits

## ASSETS

|                                      |                     |                   |                   |                   |
|--------------------------------------|---------------------|-------------------|-------------------|-------------------|
| Cash and short-term investments..... | \$ 86               | \$ -              | \$ -              | \$ 86             |
| Assets held in trust.....            | 1,359,400           | 328,225           | 819,840           | 867,785           |
| <b>Total assets.....</b>             | <b>\$ 1,359,486</b> | <b>\$ 328,225</b> | <b>\$ 819,840</b> | <b>\$ 867,871</b> |

## LIABILITIES

|                               |                     |                   |                   |                   |
|-------------------------------|---------------------|-------------------|-------------------|-------------------|
| Agency liabilities.....       | \$ 1,359,486        | \$ 328,225        | \$ 819,840        | \$ 867,871        |
| <b>Total liabilities.....</b> | <b>\$ 1,359,486</b> | <b>\$ 328,225</b> | <b>\$ 819,840</b> | <b>\$ 867,871</b> |

# Combining Statement of Changes in Assets and Liabilities

## Agency Funds

Fiscal Year Ended June 30, 2007

(Amounts in thousands)

|   | Balance<br>July 1, 2006 | Additions           | Deductions           | Balance<br>June 30, 2007 |
|---|-------------------------|---------------------|----------------------|--------------------------|
| <b><u>Total Agency Funds</u></b>                              |                         |                     |                      |                          |
| <b>ASSETS</b>   |                         |                     |                      |                          |
| Cash and short-term investments.....                          | \$ 430,429              | \$ 8,769,818        | \$ 8,756,144         | \$ 444,103               |
| Investments, restricted investments and annuity contracts.... | 1,429,952               | 210,654             | 228,792              | 1,411,814                |
| Assets held in trust.....                                     | 1,449,654               | 360,036             | 888,286              | 921,404                  |
| Taxes receivable.....   | 1,647                   | 930                 | 1,647                | 930                      |
| Other receivables.....  | 94,145                  | 97,740              | 94,145               | 97,740                   |
| <b>Total assets.....</b>                                      | <b>\$ 3,405,827</b>     | <b>\$ 9,439,178</b> | <b>\$ 9,969,014</b>  | <b>\$ 2,875,991</b>      |
| <b>LIABILITIES</b>  |                         |                     |                      |                          |
| Accounts payable.....   | \$ 59,589               | \$ 4,559,228        | \$ 4,541,735         | \$ 77,082                |
| Due to cities and towns.....                                  | 47,095                  | 435,089             | 430,619              | 51,565                   |
| Due to federal government.....                                | -                       | 47                  | 47                   | -                        |
| Lottery prizes payable.....                                   | 1,429,952               | 210,654             | 228,792              | 1,411,814                |
| Agency liabilities.....                                       | 1,869,191               | 4,478,128           | 5,011,789            | 1,335,530                |
| <b>Total liabilities.....</b>                                 | <b>\$ 3,405,827</b>     | <b>\$ 9,683,146</b> | <b>\$ 10,212,982</b> | <b>\$ 2,875,991</b>      |

# Combining Statement of Net Assets

## Nonmajor Component Units

June 30, 2007

(Amounts in thousands)

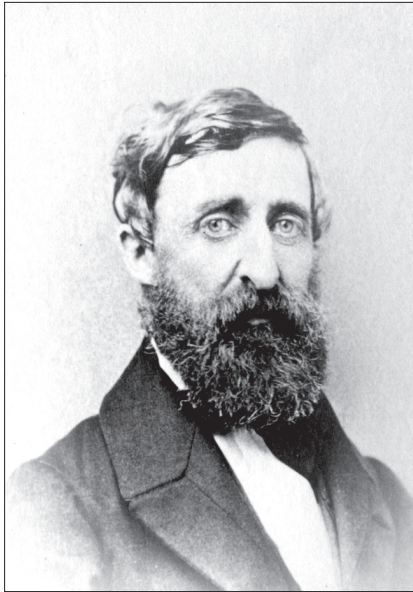
|   | Massachusetts<br>Convention<br>Center<br>Authority | Massachusetts<br>Development<br>Finance<br>Agency | Regional<br>Transit<br>Authorities | Massachusetts<br>Technology<br>Park<br>Corporation | Commonwealth<br>Health<br>Insurance<br>Connector | Economic<br>Development<br>Entities | Total               |
|---|--|---|------------------------------------|--|--|-------------------------------------|---------------------|
| <b>ASSETS</b>   |  |   |                                    |  |  |                                     |                     |
| Current assets:   |  |   |                                    |  |  |                                     |                     |
| Cash and cash equivalents.....                            | \$ 16,492  | \$ 37,807   | \$ 15,820                          | \$ 332   | \$ -   | \$ 35,357                           | \$ 105,808          |
| Short-term investments.....                               | 44,006   | 230,075   | 1,616                              | 262,800  | 18,595   | 99,799                              | 656,891             |
| Receivables, net of allowance for uncollectibles:         |  |   |                                    |  |  |                                     |                     |
| Federal grants and reimbursement receivable.....          | -  | -   | 24,018                             | -  | 1,398  | 4,763                               | 30,179              |
| Loans.....  | -  | 15,420  | -                                  | -  | -  | 24,980                              | 40,400              |
| Other receivables.....                                    | 2,713  | 6,336   | 10,912                             | 6,275  | 17   | 1,407                               | 27,660              |
| Due from cities and towns.....                            | -  | -   | 29,566                             | -  | -  | -                                   | 29,566              |
| Due from primary government.....                          | 8,528  | 13,272  | 65,667                             | -  | -  | 7,480                               | 94,947              |
| Inventory.....  | -  | 179   | 578                                | -  | -  | 70                                  | 827                 |
| Other current assets.....                                 | 1,471  | 5,869   | 3,543                              | 171  | 1,037  | 292                                 | 12,383              |
| <b>Total current assets.....</b>                          | <b>73,210</b>                                      | <b>308,958</b>                                    | <b>151,720</b>                     | <b>269,578</b>                                     | <b>21,047</b>                                    | <b>174,148</b>                      | <b>998,661</b>      |
| Noncurrent assets:  |  |   |                                    |  |  |                                     |                     |
| Cash and cash equivalents - restricted.....               | -  | 19,751  | 3,462                              | 443  | -  | -                                   | 23,656              |
| Long - term investments.....                              | -  | 38,982  | -                                  | 1,260  | -  | 44,140                              | 84,382              |
| Restricted investments.....                               | -  | -   | -                                  | 27,272   | -  | -                                   | 27,272              |
| Accounts receivables, net.....                            | -  | 4,429   | 4,141                              | -  | -  | 498                                 | 9,068               |
| Loans receivables, net.....                               | -  | 64,117  | -                                  | 10,543   | -  | 254,429                             | 329,089             |
| Due from primary government.....                          | -  | -   | 3,354                              | -  | -  | 297,587                             | 300,941             |
| Non-depreciable capital assets.....                       | 59,975   | 8,264   | 16,578                             | -  | -  | 864                                 | 85,681              |
| Depreciable capital assets, net.....                      | 776,512  | 203,269   | 224,609                            | 12,153   | 311  | 12,870                              | 1,229,724           |
| Other noncurrent assets.....                              | 52   | 30,855  | 5,352                              | -  | -  | 2,941                               | 39,200              |
| <b>Total noncurrent assets.....</b>                       | <b>836,539</b>                                     | <b>369,667</b>                                    | <b>257,496</b>                     | <b>51,671</b>                                      | <b>311</b>                                       | <b>613,329</b>                      | <b>2,129,013</b>    |
| <b>Total assets.....</b>                                  | <b>909,749</b>                                     | <b>678,625</b>                                    | <b>409,216</b>                     | <b>321,249</b>                                     | <b>21,358</b>                                    | <b>787,477</b>                      | <b>3,127,674</b>    |
| <b>LIABILITIES</b>  |  |   |                                    |  |  |                                     |                     |
| Current liabilities:                                      |  |   |                                    |  |  |                                     |                     |
| Accounts payable and other liabilities.....               | 8,612  | 18,303  | 28,474                             | 46,447   | 5,915  | 12,089                              | 119,840             |
| Accrued payroll.....                                      | -  | -   | -                                  | -  | 210  | 301                                 | 511                 |
| Compensated absences.....                                 | -  | -   | 143                                | -  | -  | 772                                 | 915                 |
| Accrued interest payable.....                             | -  | 2,882   | 1,544                              | -  | -  | 1,646                               | 6,072               |
| Due to primary government.....                            | 7,860  | -   | -                                  | -  | -  | -                                   | 7,860               |
| Deferred inflow of resources.....                         | 12,651   | -   | 4,557                              | -  | 2,337  | 7,287                               | 26,832              |
| Capital leases.....                                       | -  | -   | 3                                  | -  | -  | -                                   | 3                   |
| Bonds, notes payable and other obligations - current..... | 1,890  | 22,070  | 105,743                            | -  | -  | 21,611                              | 151,314             |
| <b>Total current liabilities.....</b>                     | <b>31,013</b>                                      | <b>43,255</b>                                     | <b>140,464</b>                     | <b>46,447</b>                                      | <b>8,462</b>                                     | <b>43,706</b>                       | <b>313,347</b>      |
| Noncurrent liabilities:                                   |  |   |                                    |  |  |                                     |                     |
| Compensated absences.....                                 | -  | -   | 365                                | -  | -  | 90                                  | 455                 |
| Deferred inflow of resources.....                         | -  | 15,577  | 4,673                              | -  | -  | 20,674                              | 40,924              |
| Bonds, notes payable and other obligations.....           | 12,407   | 216,231   | 19,935                             | -  | -  | 606,746                             | 855,319             |
| Other noncurrent liabilities.....                         | 4,845  | -   | 3,811                              | 3,106  | -  | 13,622                              | 25,384              |
| <b>Total noncurrent liabilities.....</b>                  | <b>17,252</b>                                      | <b>231,808</b>                                    | <b>28,784</b>                      | <b>3,106</b>                                       | <b>-</b>   | <b>641,132</b>                      | <b>922,082</b>      |
| <b>Total liabilities.....</b>                             | <b>48,265</b>                                      | <b>275,063</b>                                    | <b>169,248</b>                     | <b>49,553</b>                                      | <b>8,462</b>                                     | <b>684,838</b>                      | <b>1,235,429</b>    |
| <b>NET ASSETS</b>   |  |   |                                    |  |  |                                     |                     |
| Invested in capital assets, net of related debt.....      | 822,242  | 42,150  | 242,027                            | 12,153   | 311  | 13,735                              | 1,132,618           |
| Restricted for:   |  |   |                                    |  |  |                                     |                     |
| Capital projects.....                                     | -  | -   | -                                  | -  | -  | 940                                 | 940                 |
| Other purposes.....                                       | -  | 169,159   | 3,389                              | 253,384  | -  | 56,772                              | 482,704             |
| Unrestricted.....   | 39,242   | 192,253   | (5,448)                            | 6,159  | 12,585   | 31,192                              | 275,983             |
| <b>Total net assets.....</b>                              | <b>\$ 861,484</b>                                  | <b>\$ 403,562</b>                                 | <b>\$ 239,968</b>                  | <b>\$ 271,696</b>                                  | <b>\$ 12,896</b>                                 | <b>\$ 102,639</b>                   | <b>\$ 1,892,245</b> |



# Combining Statement of Revenues, Expenses and Changes in Net Assets

Nonmajor Component Units  
Fiscal Year Ended June 30, 2007  
(Amounts in thousands)

|   | Massachusetts<br>Convention<br>Center<br>Authority | Massachusetts<br>Development<br>Finance<br>Agency | Regional<br>Transit<br>Authorities | Massachusetts<br>Technology<br>Park<br>Corporation | Commonwealth<br>Health<br>Insurance<br>Connector | Economic<br>Development<br>Entities | Total               |
|---|--|---|------------------------------------|--|--|-------------------------------------|---------------------|
| <b>Operating revenues:</b>  |  |   |                                    |  |  |                                     |                     |
| Charges for services.....   | \$ 44,855  | \$ 34,280   | \$ 110,538                         | \$ -   | \$ 135,851                                       | \$ 46,665                           | \$ 372,189          |
| Other.....  | 1,640  | 24,056  | 4,125                              | 41,691   | 1  | 82,993                              | 154,506             |
| <b>Total operating revenues.....</b>                                      | <b>46,495</b>                                      | <b>58,336</b>                                     | <b>114,663</b>                     | <b>41,691</b>                                      | <b>135,852</b>                                   | <b>129,658</b>                      | <b>526,695</b>      |
| <b>Operating expenses:</b>  |  |   |                                    |  |  |                                     |                     |
| Cost of services .....  | 46,656   | 4,001   | 199,181                            | 37,340   | 143,100  | 51,392                              | 481,670             |
| Administration costs.....   | 15,486   | 49,198  | 16,723                             | 273  | 5,732  | 20,649                              | 108,061             |
| Depreciation.....   | 36,684   | 9,297   | 26,301                             | 370  | 28   | 1,069                               | 73,749              |
| <b>Total operating expenses.....</b>                                      | <b>98,826</b>                                      | <b>62,496</b>                                     | <b>242,205</b>                     | <b>37,983</b>                                      | <b>148,860</b>                                   | <b>73,110</b>                       | <b>663,480</b>      |
| <b>Operating income (loss).....</b>                                       | <b>(52,331)</b>                                    | <b>(4,160)</b>                                    | <b>(127,542)</b>                   | <b>3,708</b>                                       | <b>(13,008)</b>                                  | <b>56,548</b>                       | <b>(136,785)</b>    |
| <b>Nonoperating revenues (expenses):</b>                                  |  |   |                                    |  |  |                                     |                     |
| Operating grants.....   | 21,075   | 6,423   | 102,721                            | -  | -  | 17,962                              | 148,181             |
| Interest income.....  | 2,142  | 15,933  | 815                                | 18,410   | 955  | 1,492                               | 39,747              |
| Interest expense.....   | (807)  | (12,856)  | (4,523)                            | -  | -  | (17,211)                            | (35,397)            |
| Other nonoperating revenue (expense).....                                 | 2,022  | 288   | 683                                | -  | -  | (4,469)                             | (1,476)             |
| <b>Nonoperating revenues (expenses), net.....</b>                         | <b>24,432</b>                                      | <b>9,788</b>                                      | <b>99,696</b>                      | <b>18,410</b>                                      | <b>955</b>                                       | <b>(2,226)</b>                      | <b>151,055</b>      |
| <b>Income (loss) before contributions<br/>and operating transfer.....</b> | <b>(27,899)</b>                                    | <b>5,628</b>                                      | <b>(27,846)</b>                    | <b>22,118</b>                                      | <b>(12,053)</b>                                  | <b>54,322</b>                       | <b>14,270</b>       |
| Capital contributions.....  | 8,077  | 73,995  | 30,137                             | -  | -  | (47,613)                            | 64,596              |
| Loss on disposal of capital assets.....                                   | -  | -   | (660)                              | -  | -  | -                                   | (660)               |
| <b>Change in net assets.....</b>  | <b>(19,822)</b>                                    | <b>79,623</b>                                     | <b>1,631</b>                       | <b>22,118</b>                                      | <b>(12,053)</b>                                  | <b>6,709</b>                        | <b>78,206</b>       |
| Net assets - beginning (re-stated).....                                   | 881,306  | 323,939   | 238,337                            | 249,578  | 24,949   | 95,930                              | 1,814,039           |
| <b>Net assets - ending.....</b>   | <b>\$ 861,484</b>                                  | <b>\$ 403,562</b>                                 | <b>\$ 239,968</b>                  | <b>\$ 271,696</b>                                  | <b>\$ 12,896</b>                                 | <b>\$ 102,639</b>                   | <b>\$ 1,892,245</b> |



Henry David Thoreau lived at Walden Pond from July 1845 to September 1847. His experience at Walden provided the material for the book *Walden*, which is credited with helping to inspire awareness and respect for the natural environment. Because of Thoreau's legacy, Walden Pond has been designated a National Historic Landmark and is considered the birthplace of the conservation movement. Park

Interpreters provide tours and ongoing educational programs. The Reservation includes the 102-foot deep glacial kettle-hole pond. Mostly undeveloped woods totaling 2680 acres, called "Walden Woods," surround the reservation.



*Photograph by Scot Miller®*



*Courtesy of The Walden Woods Project*

***"Nature will bear the closest inspection. She invites us to lay our eye level with her smallest leaf, and take an insect view of its plain."***

*Henry David Thoreau*



*Dragonfly on ferns*

*Courtesy by Massachusetts Wildlife  
Photograph by Bill Byrne*



*Courtesy of The Walden Woods Project*

In 1990, recording artist Don Henley (the Eagles) founded the Walden Woods Project, a non-profit organization. The mission of the Walden Woods Project ([www.walden.org](http://www.walden.org)) is to preserve the land, literature and legacy of Henry David Thoreau to foster an ethic of environmental stewardship and social responsibility. The organization achieves this mission through the integration of conservation, education and research. The Walden Woods Project owns and manages over 150 acres within Walden Woods that provide passive recreation, interpretive trails and educational opportunities for the public. The organization is actively engaged in efforts to purchase or otherwise protect a number of other historically and environmentally sensitive sites in Walden Woods that are endangered.

# Statistical Section

*Schedule of Net Assets by Component – Last Six Fiscal Years*

*Changes in Net Assets – Last Six Fiscal Years*

*Fund Balances, Governmental Funds – Last Six Fiscal Years*

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*Calculation of Transfers - Stabilization Fund*

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*Massachusetts General Information*

The Walden Woods Project offers highly relevant educational programs that apply Thoreau's philosophy to contemporary issues. These programs include a popular lecture series, a week-long seminar for high school teachers and a newly-launched, web-based international initiative (World Wide Waldens) that fosters communication between students from different countries and cultures while offering them a chance to find a "Walden" in their own communities and complete a stewardship project ([www.worldwidewaldens.org](http://www.worldwidewaldens.org)).

The Walden Woods Project also operates the Thoreau Institute near Walden Pond that includes a world-class research library and archives housing the most comprehensive collection of Thoreau-related material in the world.



*Courtesy of The Walden Woods Project*



## ***Statistical Section Narrative and Table of Contents***

This part of the Commonwealth of Massachusetts' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

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#### **Financial Trends**

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective are only included from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted. Schedules included are:

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<sup>1</sup> Tax Year 2005 is the last "closed" tax year

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**Schedule Of Net Assets by Component  
Last Six Fiscal Years**

(Amounts in thousands)

|   | 2007                  | 2006                   | 2005                   | 2004                  | 2003                  | 2002                  |
|---|-----------------------|------------------------|------------------------|-----------------------|-----------------------|-----------------------|
| <b>Governmental activities</b>                          |                       |                        |                        |                       |                       |                       |
| Invested in capital assets, net of related debt.....    | \$ 489,432            | \$ 101,510             | \$ 196,765             | \$ 2,032,958          | \$ 3,901,007          | \$ 5,611,252          |
| Restricted*.....  | 993,520               | 1,758,291              | 1,289,174              | 519,746               | 311,837               | 793,991               |
| Unrestricted*.....                                      | (11,079,729)          | (12,157,187)           | (13,030,031)           | (8,894,155)           | (12,318,385)          | (13,820,768)          |
| <b>Total governmental activities net assets.....</b>    | <b>\$ (9,596,777)</b> | <b>\$ (10,297,385)</b> | <b>\$ (11,544,092)</b> | <b>\$ (6,341,451)</b> | <b>\$ (8,105,541)</b> | <b>\$ (7,415,525)</b> |
| <b>Business - type activities</b>                       |                       |                        |                        |                       |                       |                       |
| Invested in capital assets, net of related debt.....    | \$ 1,392,363          | \$ 1,283,570           | \$ 1,149,352           | \$ 1,132,637          | \$ 1,073,152          | \$ 1,032,022          |
| Restricted.....   | 2,295,507             | 1,816,066              | 1,331,053              | 915,583               | 946,704               | 1,784,322             |
| Unrestricted.....                                       | 645,211               | 548,774                | 562,777                | 434,007               | 321,523               | 243,605               |
| <b>Total business - type activities net assets.....</b> | <b>\$ 4,333,081</b>   | <b>\$ 3,648,410</b>    | <b>\$ 3,043,182</b>    | <b>\$ 2,482,227</b>   | <b>\$ 2,341,379</b>   | <b>\$ 3,059,949</b>   |
| <b>Commonwealth net assets</b>                          |                       |                        |                        |                       |                       |                       |
| Invested in capital assets, net of related debt.....    | \$ 1,881,795          | \$ 1,385,080           | \$ 1,346,117           | \$ 3,165,595          | \$ 4,974,159          | \$ 6,643,274          |
| Restricted*.....  | 3,289,027             | 3,574,357              | 4,750,395              | 1,435,329             | 1,258,541             | 2,578,313             |
| Unrestricted*.....                                      | (10,434,518)          | (11,608,413)           | (14,597,422)           | (8,460,148)           | (11,996,862)          | (13,577,163)          |
| <b>Total Commonwealth net assets.....</b>               | <b>\$ (5,263,696)</b> | <b>\$ (6,648,975)</b>  | <b>\$ (8,500,910)</b>  | <b>\$ (3,859,224)</b> | <b>\$ (5,764,162)</b> | <b>\$ (4,355,576)</b> |

\*Restated

## Changes in Net Assets Last Six Fiscal Years

(Amounts in thousands)

|   | 2007                 | 2006                 | 2005                  | 2004                 | 2003                  | 2002                  |
|---|----------------------|----------------------|-----------------------|----------------------|-----------------------|-----------------------|
| <b>EXPENSES</b>   |                      |                      |                       |                      |                       |                       |
| <b>Governmental Activities:</b>   |                      |                      |                       |                      |                       |                       |
| General government.....   | \$ 2,172,191         | \$ 1,984,732         | \$ 1,815,877          | \$ 2,059,234         | \$ 1,833,325          | \$ 1,360,663          |
| Judiciary.....  | 818,366              | 673,930              | 636,381               | 538,434              | 594,584               | 571,467               |
| Direct local aid.....   | 5,081,359            | 4,682,027            | 4,525,847             | 4,877,089            | 5,118,711             | 5,252,805             |
| Medicaid.....   | 9,044,420            | 8,150,576            | 7,705,717             | 6,909,412            | 6,177,280             | 5,978,811             |
| Group health insurance.....   | 1,033,796            | 970,150              | 872,970               | 778,072              | 732,252               | 770,832               |
| Public assistance.....  | 1,258,104            | 1,129,031            | 1,095,903             | 1,019,068            | 1,017,997             | 1,029,645             |
| Interest (unallocated).....   | 1,079,551            | 985,474              | 861,265               | 788,908              | 739,463               | 687,817               |
| Pension.....  | 256,790              | 441,200              | 440,152               | 241,845              | 354,802               | 237,472               |
| Energy and environmental.....   | 475,327              | 415,440              | 396,094               | 366,943              | 376,983               | 457,055               |
| Housing and communities development.....  | 515,792              | 664,321              | 603,227               | 589,603              | 585,263               | 551,377               |
| Health and human services including Elder affairs*.....                           | 5,069,029            | 5,306,321            | 5,196,735             | 4,839,472            | 4,639,823             | 4,516,606             |
| Transportation and public works.....  | 1,259,699            | 1,266,396            | 1,546,361             | 1,558,462            | 2,037,485             | 1,753,244             |
| Education.....  | 1,866,430            | 1,942,206            | 8,219,960             | 1,248,020            | 1,422,204             | 1,893,438             |
| Public safety and homeland security.....  | 1,694,292            | 1,650,547            | 1,520,338             | 1,412,580            | 1,289,341             | 959,425               |
| Economic Development, Consumer and Labor*.....                                    | 633,817              | 387,132              | 358,839               | 380,698              | 420,871               | 384,591               |
| Lottery.....  | 3,689,221            | 3,708,713            | 3,692,520             | 3,606,608            | 3,470,046             | 3,453,858             |
| <b>Total governmental activities.....</b>   | <b>35,948,184</b>    | <b>34,358,196</b>    | <b>39,488,186</b>     | <b>31,214,448</b>    | <b>30,810,430</b>     | <b>29,859,108</b>     |
| <b>Business - Type Activities:</b>  |                      |                      |                       |                      |                       |                       |
| Unemployment compensation.....  | 1,430,130            | 1,337,565            | 1,662,955             | 2,461,293            | 2,589,107             | 2,183,100             |
| <b>Higher Education:</b>  |                      |                      |                       |                      |                       |                       |
| University of Massachusetts.....  | 2,233,634            | 2,116,226            | 1,977,546             | 1,597,676            | 1,531,381             | 1,437,518             |
| State colleges.....   | 624,470              | 568,592              | 514,122               | 456,022              | 425,154               | 418,593               |
| Community colleges.....   | 627,400              | 592,310              | 548,017               | 525,179              | 523,403               | 508,895               |
| <b>Total business - type activities.....</b>                                      | <b>4,915,634</b>     | <b>4,614,693</b>     | <b>4,702,640</b>      | <b>5,040,170</b>     | <b>5,069,045</b>      | <b>4,548,107</b>      |
| <b>Total Commonwealth expenses.....</b>   | <b>\$ 40,863,818</b> | <b>\$ 38,972,889</b> | <b>\$ 44,190,826</b>  | <b>\$ 36,254,618</b> | <b>\$ 35,879,475</b>  | <b>\$ 34,407,214</b>  |
| <b>REVENUES</b>   |                      |                      |                       |                      |                       |                       |
| <b>Program Revenues (all types consolidated):</b>                                 |                      |                      |                       |                      |                       |                       |
| <b>Governmental Activities:</b>   |                      |                      |                       |                      |                       |                       |
| Charges for services.....   | 7,155,550            | \$ 7,706,968         | \$ 8,040,263          | \$ 7,739,588         | \$ 6,652,039          | \$ 6,473,988          |
| Operating grants and contributions.....   | 8,849,046            | 8,347,822            | 7,961,904             | 8,017,469            | 7,129,712             | 7,078,110             |
| Capital grants and contributions.....   | 487,365              | 481,778              | 461,371               | 602,449              | 508,235               | 338                   |
| <b>Total governmental activities.....</b>   | <b>16,491,961</b>    | <b>16,536,568</b>    | <b>16,463,538</b>     | <b>16,359,506</b>    | <b>14,289,986</b>     | <b>13,552,436</b>     |
| <b>Business - Type Activities:</b>  |                      |                      |                       |                      |                       |                       |
| Charges for services.....   | 3,370,645            | 3,266,312            | 3,253,584             | 2,692,468            | 1,943,194             | 877,389               |
| Operating grants and contributions.....   | 746,385              | 684,108              | 854,653               | 1,376,666            | 1,249,768             | 869,848               |
| Capital grants and contributions.....   | -                    | -                    | -                     | -                    | -                     | 77,161                |
| <b>Total business - type activities.....</b>                                      | <b>4,117,030</b>     | <b>3,950,420</b>     | <b>4,108,237</b>      | <b>4,069,134</b>     | <b>3,192,962</b>      | <b>1,824,398</b>      |
| <b>Total Commonwealth Program Revenues.....</b>                                   | <b>\$ 20,608,991</b> | <b>\$ 20,486,988</b> | <b>\$ 20,571,775</b>  | <b>\$ 20,428,640</b> | <b>\$ 17,482,948</b>  | <b>\$ 15,376,834</b>  |
| <b>General Revenues and Other Changes in Net Assets (all types consolidated):</b> |                      |                      |                       |                      |                       |                       |
| <b>Governmental Activities:</b>   |                      |                      |                       |                      |                       |                       |
| Taxes (all types).....  | \$ 20,001,189        | \$ 18,668,322        | \$ 17,580,271         | \$ 16,406,781        | \$ 15,161,687         | \$ 14,688,596         |
| Investment earnings and miscellaneous.....  | 1,318,008            | 1,396,033            | 1,168,540             | 1,042,704            | 1,179,686             | (367,695)             |
| Gain on sale of fixed assets.....   | -                    | 26,300               | -                     | -                    | -                     | -                     |
| Transfers.....  | (1,167,367)          | (1,022,320)          | (926,715)             | (830,453)            | (950,217)             | (1,018,603)           |
| <b>Total governmental activities.....</b>   | <b>20,151,830</b>    | <b>19,068,335</b>    | <b>17,822,096</b>     | <b>16,619,033</b>    | <b>15,391,157</b>     | <b>13,302,298</b>     |
| <b>Business - Type Activities:</b>  |                      |                      |                       |                      |                       |                       |
| Investment earnings and miscellaneous.....  | \$ 315,908           | 247,181              | 228,643               | 181,719              | 207,296               | 965,901               |
| Transfers.....  | 1,167,367            | 1,022,320            | 926,715               | 830,453              | 950,217               | 1,018,603             |
| <b>Total business - type activities.....</b>                                      | <b>1,483,275</b>     | <b>1,269,501</b>     | <b>1,155,358</b>      | <b>1,012,172</b>     | <b>1,157,513</b>      | <b>1,984,504</b>      |
| <b>Total Commonwealth General Revenues.....</b>                                   | <b>\$ 21,635,105</b> | <b>\$ 20,337,836</b> | <b>\$ 18,977,454</b>  | <b>\$ 17,631,205</b> | <b>\$ 16,548,670</b>  | <b>\$ 15,286,802</b>  |
| <b>CHANGES IN NET ASSETS</b>  |                      |                      |                       |                      |                       |                       |
| <b>Governmental activities.....</b>   | <b>\$ 695,608</b>    | <b>\$ 1,246,707</b>  | <b>\$ (5,202,551)</b> | <b>\$ 1,764,090</b>  | <b>\$ (1,129,287)</b> | <b>\$ (3,004,374)</b> |
| <b>Business - type activities.....</b>  | <b>684,671</b>       | <b>605,228</b>       | <b>560,955</b>        | <b>41,136</b>        | <b>(718,570)</b>      | <b>(739,205)</b>      |
| <b>Total Commonwealth .....</b>   | <b>\$ 1,380,279</b>  | <b>\$ 1,851,935</b>  | <b>\$ (4,641,596)</b> | <b>\$ 1,805,226</b>  | <b>\$ (1,847,857)</b> | <b>\$ (3,743,578)</b> |

\* NOTE: Economic Development, Consumer Affairs and Labor were consolidated into Economic Development effective FY04.  
Elder Affairs was consolidated under Health and Human Services in FY04.



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**Fund Balances, Governmental Funds**  
**Last Six Fiscal Years**

*(Modified accrual basis of accounting)*

(Amounts in thousands)

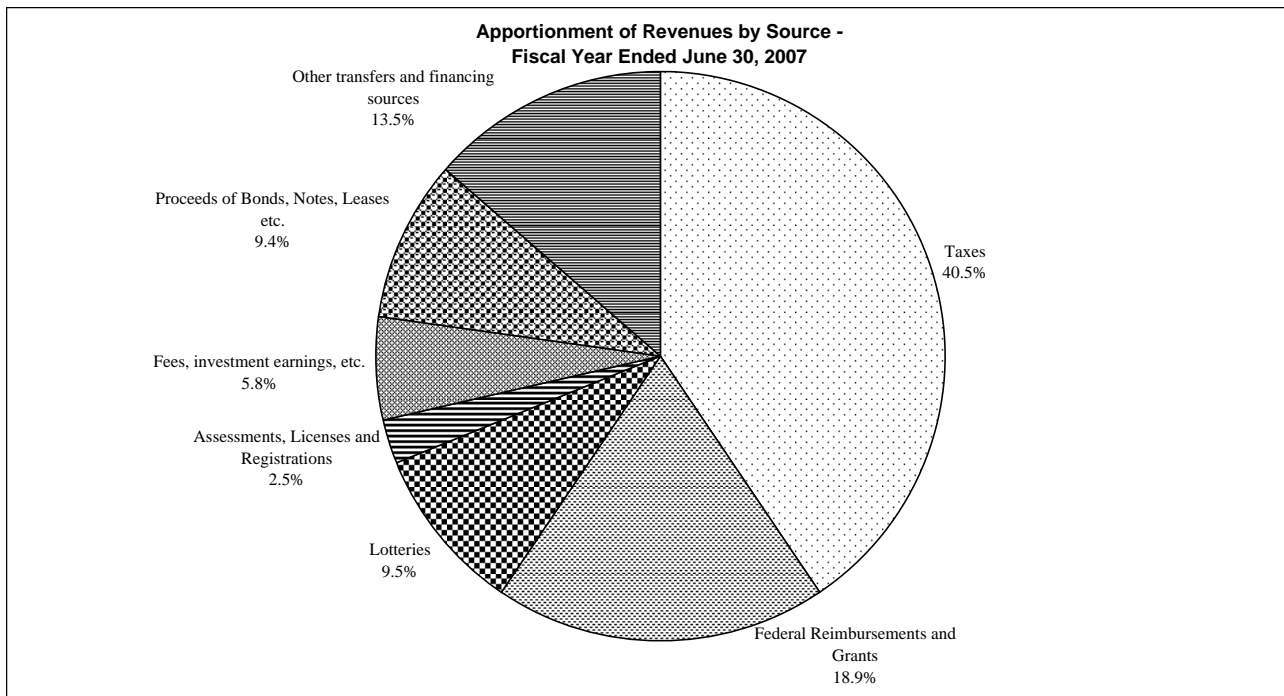
|  | 2007                | 2006                | 2005                | 2004                | 2003                | 2002                |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>General Fund</b>                            |                     |                     |                     |                     |                     |                     |
| Reserved*.....                                 | \$ -                | \$ 3,060,199        | \$ 2,337,535        | \$ 1,482,978        | \$ 690,727          | \$ 967,724          |
| Unreserved*.....                               | 4,899,154           | 1,861,875           | 1,730,350           | 1,014,469           | 619,190             | 1,407,669           |
| <b>Total general fund.....</b>                 | <b>4,899,154</b>    | <b>4,922,074</b>    | <b>4,067,885</b>    | <b>2,497,447</b>    | <b>1,309,917</b>    | <b>2,375,393</b>    |
| <b>All Other Governmental Funds</b>            |                     |                     |                     |                     |                     |                     |
| Reserved*.....                                 | 1,092,343           | 1,109,898           | 1,154,807           | 1,947,897           | 1,474,983           | 1,726,590           |
| Unreserved*.....                               | 1,744,362           | 1,231,222           | (174,126)           | (20,938)            | (763,882)           | (1,634,130)         |
| <b>Total all other governmental funds.....</b> | <b>2,836,705</b>    | <b>2,341,121</b>    | <b>980,681</b>      | <b>1,926,959</b>    | <b>711,101</b>      | <b>92,460</b>       |
| <b>Total governmental fund balances.....</b>   | <b>\$ 7,735,859</b> | <b>\$ 7,263,195</b> | <b>\$ 5,048,566</b> | <b>\$ 4,424,406</b> | <b>\$ 2,021,018</b> | <b>\$ 2,467,853</b> |

\* Reserved for continuing appropriations. Commonwealth stabilization and capital projects are reported under Unreserved in FY 2007.

**Ten-Year Schedule Of Revenues And Other Financing Sources**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

|   | 2007             | %<br>Total   | 2006             | %<br>Total   | 2005             | %<br>Total   | 2004             | %<br>Total   |
|---|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| Taxes.....                                      | \$ 19,985        | 40.5         | \$ 18,754        | 39.7         | \$ 17,671        | 40.6         | \$ 16,133        | 36.4         |
| Federal reimbursements.....                     | 6,847            | 13.9         | 6,350            | 13.5         | 6,053            | 13.9         | 6,284            | 14.2         |
| Federal grants.....                             | 2,489            | 5.0          | 2,479            | 5.3          | 2,369            | 5.4          | 2,336            | 5.3          |
| Lotteries.....                                  | 4,670            | 9.5          | 4,739            | 10.0         | 4,705            | 10.8         | 4,605            | 10.4         |
| Assessments.....                                | 860              | 1.7          | 850              | 1.8          | 831              | 1.9          | 773              | 1.7          |
| Motor vehicle licenses and registrations.....   | 380              | 0.8          | 361              | 0.8          | 401              | 0.9          | 376              | 0.8          |
| Fees, investment earnings, etc.....             | 2,875            | 5.8          | 3,270            | 7.0          | 3,213            | 7.5          | 3,028            | 6.8          |
| Proceeds of general obligation bonds.....       | 3,181            | 6.4          | 4,492            | 9.5          | 1,354            | 3.1          | 1,993            | 4.5          |
| Proceeds of refunding bonds.....                | 1,428            | 2.9          | 633              | 1.3          | 1,385            | 3.2          | 3,302            | 7.4          |
| Proceeds of capital lease.....                  | 21               | -            | 30               | 0.1          | 58               | 0.1          | 11               | -            |
| Operating transfers.....                        | 6,666            | 13.5         | 5,232            | 11.1         | 5,493            | 12.6         | 5,531            | 12.5         |
| Other financing sources.....                    | -                | -            | -                | -            | -                | -            | -                | -            |
| Total revenues and other financing sources..... | <u>\$ 49,402</u> | <u>100.0</u> | <u>\$ 47,190</u> | <u>100.0</u> | <u>\$ 43,533</u> | <u>100.0</u> | <u>\$ 44,372</u> | <u>100.0</u> |



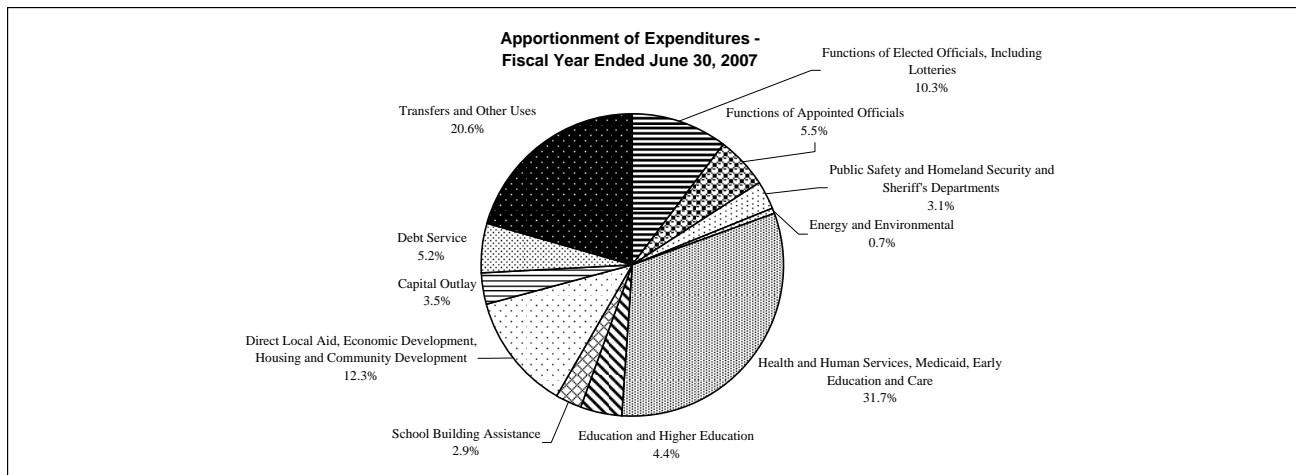
| 2003             | %<br>Total   | 2002             | %<br>Total   | 2001             | %<br>Total   | 2000             | %<br>Total   | 1999             | %<br>Total   | 1998             | %<br>Total   |
|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| \$ 15,091        | 35.3         | \$ 14,428        | 39.6         | \$ 16,803        | 42.8         | \$ 15,695        | 41.1         | \$ 14,321        | 43.0         | \$ 14,033        | 44.9         |
| 5,522            | 12.9         | 5,267            | 14.4         | 4,716            | 12.0         | 4,496            | 11.8         | 4,213            | 12.7         | 4,385            | 14.0         |
| 2,112            | 4.9          | 1,812            | 5.0          | 1,644            | 4.2          | 1,565            | 4.1          | 1,456            | 4.4          | 1,470            | 4.7          |
| 4,423            | 10.3         | 4,425            | 12.1         | 4,136            | 10.5         | 3,914            | 10.3         | 3,570            | 10.7         | 3,392            | 10.9         |
| 645              | 1.5          | 572              | 1.6          | 590              | 1.5          | 462              | 1.2          | 546              | 1.6          | 514              | 1.6          |
| 383              | 0.9          | 326              | 0.9          | 311              | 0.8          | 285              | 0.7          | 281              | 0.8          | 295              | 0.9          |
| 2,331            | 5.4          | 2,178            | 6.0          | 1,885            | 4.8          | 1,776            | 4.7          | 1,433            | 4.3          | 1,394            | 4.5          |
| 1,911            | 4.5          | 1,489            | 4.1          | 1,769            | 4.5          | 1,762            | 4.6          | 1,015            | 3.0          | 1,347            | 4.3          |
| 3,398            | 7.9          | 1,501            | 4.1          | 999              | 2.5          | -                | -            | 499              | 1.5          | 862              | 2.8          |
| -                | -            | 10               | -            | 31               | 0.1          | 9                | 0.0          | 9                | 0.1          | 15               | 0.1          |
| 6,981            | 16.3         | 4,454            | 12.2         | 5,566            | 14.2         | 7,502            | 19.7         | 4,555            | 13.7         | 3,338            | 10.7         |
| -                | -            | 3                | -            | 206              | 0.5          | 106              | 0.3          | 1,056            | 3.2          | 104              | 0.3          |
| <u>\$ 42,796</u> | <u>100.0</u> | <u>\$ 36,477</u> | <u>100.0</u> | <u>\$ 39,256</u> | <u>100.0</u> | <u>\$ 38,174</u> | <u>100.0</u> | <u>\$ 33,273</u> | <u>100.0</u> | <u>\$ 31,249</u> | <u>100.0</u> |

**Ten-Year Schedule Of Expenditures And Other Financing Uses By Secretariat**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

|  | 2007      | %<br>Total | 2006      | %<br>Total | 2005      | %<br>Total | 2004      | %<br>Total | 2003      | %<br>Total |
|--|-----------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|
| Legislature.....                                 | \$ 59     | 0.12       | \$ 55     | 0.12       | \$ 50     | 0.1        | \$ 51     | 0.1        | \$ 53     | 0.1        |
| Judiciary.....                                   | 799       | 1.63       | 660       | 1.47       | 580       | 1.4        | 577       | 1.4        | 568       | 1.3        |
| Inspector General.....                           | 3         | 0.01       | 3         | 0.01       | 3         | -          | 2         | -          | 2         | -          |
| Governor and Lieutenant Governor.....            | 5         | 0.01       | 5         | 0.01       | 5         | -          | 5         | -          | 5         | -          |
| Secretary of the Commonwealth.....               | 52        | 0.11       | 44        | 0.10       | 46        | 0.1        | 43        | 0.1        | 39        | 0.1        |
| Treasurer and Receiver-General.....              | 4,712     | 9.63       | 4,803     | 10.68      | 4,706     | 11.0       | 4,535     | 10.8       | 4,446     | 10.3       |
| Auditor of the Commonwealth.....                 | 18        | 0.04       | 18        | 0.04       | 16        | -          | 16        | -          | 16        | -          |
| Attorney General.....                            | 62        | 0.13       | 52        | 0.12       | 70        | 0.2        | 52        | 0.1        | 55        | 0.1        |
| Ethics Commission.....                           | 2         | -          | 1         | -          | 1         | -          | 1         | -          | 1         | -          |
| District Attorney.....                           | 102       | 0.21       | 94        | 0.21       | 84        | 0.2        | 86        | 0.2        | 85        | 0.2        |
| Office of Campaign and Political Finance.....    | 2         | -          | 1         | -          | 1         | -          | 1         | -          | 1         | 0.0        |
| Sheriff's Department.....                        | 272       | 0.56       | 247       | 0.55       | 216       | 0.5        | 218       | 0.5        | 215       | 0.5        |
| Disabled Persons Protection Commission.....      | 2         | -          | 2         | -          | 2         | -          | 2         | -          | 2         | 0.0        |
| Board of Library Commissioners.....              | 10        | 0.02       | 8         | 0.02       | 7         | -          | 6         | -          | 6         | -          |
| Comptroller.....                                 | 14        | 0.03       | 14        | 0.03       | 12        | -          | 8         | -          | 8         | -          |
| Administration and finance.....                  | 1,849     | 3.78       | 1,651     | 3.67       | 1,536     | 3.6        | 1,508     | 3.6        | 1,202     | 2.8        |
| Energy and environmental.....                    | 318       | 0.65       | 282       | 0.63       | 238       | 0.6        | 225       | 0.5        | 236       | 0.5        |
| Housing and communities development.....         | 402       | 0.82       | 536       | 1.19       | 483       | 1.1        | 470       | 1.1        | 476       | 1.1        |
| Early education and care.....                    | 518       | 1.06       | 482       | 1.07       | -         | -          | -         | -          | -         | -          |
| Health and human services.....                   | 7,089     | 14.49      | 6,797     | 15.11      | 7,602     | 17.7       | 6,832     | 16.3       | 5,962     | 13.8       |
| Transportation and public works.....             | 350       | 0.72       | 282       | 0.63       | 316       | 0.7        | 189       | 0.5        | 218       | 0.5        |
| Education.....                                   | 2,048     | 4.19       | 1,978     | 4.40       | 2,990     | 7.0        | 1,587     | 3.8        | 1,546     | 3.6        |
| School building assistance.....                  | 1,411     | 2.88       | 2,330     | 5.18       | -         | -          | -         | -          | -         | -          |
| Educational affairs.....                         | -         | -          | -         | -          | -         | -          | -         | -          | -         | -          |
| Higher education.....                            | 126       | 0.26       | 106       | 0.24       | 114       | 0.3        | 99        | 0.2        | 111       | 0.3        |
| Public safety and homeland security.....         | 1,238     | 2.53       | 1,165     | 2.59       | 1,053     | 2.5        | 1,039     | 2.5        | 991       | 2.3        |
| Housing and economic development.....            | 512       | 1.05       | 384       | 0.85       | 346       | 0.8        | 376       | 0.9        | 29        | 0.1        |
| Labor and economic development*.....             | 81        | 0.17       | -         | -          | -         | -          | -         | -          | -         | -          |
| Elder affairs*.....                              | -         | -          | -         | -          | -         | -          | -         | -          | 315       | 0.7        |
| Consumer affairs*.....                           | -         | -          | -         | -          | -         | -          | -         | -          | 55        | 0.1        |
| Labor*.....                                      | -         | -          | -         | -          | -         | -          | -         | -          | 330       | 0.8        |
| Medicaid.....                                    | 7,862     | 16.07      | 7,219     | 16.05      | 6,312     | 14.7       | 5,945     | 14.2       | 5,542     | 12.8       |
| Pension.....                                     | 373       | 0.76       | 346       | 0.77       | 439       | 1.0        | 212       | 0.5        | 290       | 0.7        |
| Direct local aid.....                            | 5,072     | 10.36      | 4,674     | 10.39      | 4,515     | 10.5       | 4,861     | 11.6       | 5,103     | 11.8       |
| Capital outlay:                                  |           |            |           |            |           |            |           |            |           |            |
| Local aid.....                                   | 9         | 0.02       | 8         | 0.02       | 11        | -          | 16        | -          | 15        | -          |
| Capital acquisition and construction.....        | 1,724     | 3.52       | 1,754     | 3.90       | 1,863     | 4.3        | 2,120     | 5.1        | 2,526     | 5.8        |
| Debt service.....                                | 2,538     | 5.19       | 2,088     | 4.64       | 1,719     | 4.0        | 1,605     | 3.8        | 1,467     | 3.4        |
| Other financing uses:                            |           |            |           |            |           |            |           |            |           |            |
| Payments to refunded bond escrow agent.....      | 1,520     | 3.11       | 633       | 1.41       | 1,153     | 2.7        | 2,833     | 6.8        | 3,398     | 7.9        |
| Transfers.....                                   | 7,781     | 15.90      | 6,253     | 13.90      | 6,419     | 15.0       | 6,448     | 15.4       | 7,931     | 18.3       |
| Total expenditures and other financing uses..... | \$ 48,935 | 100.0      | \$ 44,975 | 100.0      | \$ 42,908 | 99.9       | \$ 41,968 | 99.9       | \$ 43,245 | 100.0      |
| Change in Governmental Fund Balance.....         | \$ 467    |            | \$ 2,215  |            | \$ 624    |            | \$ 2,403  |            | \$ (447)  |            |

\* NOTE: Economic Development, Consumer Affairs and Labor were consolidated into Economic Development effective FY04.  
Elder Affairs was consolidated under Health and Human Services in FY04.



| 2002              | %<br>Total   | 2001             | %<br>Total   | 2000             | %<br>Total   | 1999             | %<br>Total   | 1998             | %<br>Total   |
|-------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| \$ 60             | 0.2          | \$ 57            | 0.2          | \$ 51            | 0.1          | \$ 51            | 0.2          | \$ 51            | 0.2          |
| 593               | 1.5          | 597              | 1.6          | 544              | 1.4          | 511              | 1.6          | 470              | 1.5          |
| 2                 | -            | 2                | -            | 2                | -            | 2                | -            | 2                | -            |
| 6                 | -            | 6                | -            | 6                | -            | 5                | -            | 5                | -            |
| 36                | 0.1          | 45               | 0.1          | 42               | 0.1          | 33               | 0.1          | 23               | 0.1          |
| 3,558             | 9.2          | 3,335            | 8.8          | 3,483            | 9.2          | 2,783            | 8.6          | 2,649            | 8.7          |
| 16                | -            | 15               | -            | 15               | -            | 14               | -            | 14               | -            |
| 62                | 0.2          | 36               | 0.1          | 34               | 0.1          | 49               | 0.2          | 41               | 0.1          |
| 1                 | -            | 2                | -            | 1                | -            | 1                | -            | 1                | -            |
| 89                | 0.2          | 86               | 0.2          | 77               | 0.2          | 72               | 0.2          | 68               | 0.2          |
| 5                 | -            | 1                | -            | 1                | -            | 1                | -            | 1                | -            |
| 216               | 0.6          | 201              | 0.5          | 178              | 0.5          | 134              | 0.4          | 40               | 0.1          |
| 2                 | -            | 2                | -            | 2                | -            | 2                | -            | 2                | -            |
| 10                | -            | 11               | -            | 10               | -            | 10               | -            | 9                | -            |
| 8                 | -            | 8                | -            | 8                | -            | 8                | -            | 7                | -            |
| 1,361             | 3.5          | 1,202            | 3.3          | 1,192            | 3.1          | 1,056            | 3.3          | 1,058            | 3.5          |
| 268               | 0.7          | 253              | 0.7          | 241              | 0.6          | 232              | 0.7          | 216              | 0.7          |
| 449               | 1.2          | 442              | 1.2          | 405              | 1.1          | 356              | 1.1          | 351              | 1.2          |
| -                 | -            | -                | -            | -                | -            | 0                | -            | -                | -            |
| 6,104             | 15.7         | 5,622            | 15.0         | 5,324            | 14.0         | 5,160            | 15.9         | 5,058            | 16.6         |
| 139               | 0.4          | 162              | 0.4          | 228              | 0.6          | 137              | 0.4          | 117              | 0.4          |
| 1,506             | 3.9          | 1,492            | 3.9          | 1,353            | 3.6          | 1,263            | 3.9          | 1,153            | 3.8          |
| -                 | -            | -                | -            | -                | -            | -                | -            | 0                | -            |
| -                 | -            | -                | -            | -                | -            | -                | -            | -                | -            |
| 119               | 0.3          | 136              | 0.4          | 111              | 0.3          | 97               | 0.3          | 82               | 0.3          |
| 999               | 2.6          | 955              | 2.5          | 879              | 2.3          | 860              | 2.6          | 853              | 2.8          |
| 32                | 0.1          | 51               | 0.1          | 38               | 0.1          | 57               | 0.2          | 31               | 0.1          |
| 304               | 0.8          | 241              | 0.6          | 217              | 0.6          | 197              | 0.6          | 179              | 0.6          |
| 63                | 0.2          | 71               | 0.2          | 70               | 0.2          | 68               | 0.2          | 57               | 0.2          |
| 284               | 0.7          | 172              | 0.5          | 188              | 0.5          | 166              | 0.5          | 186              | 0.6          |
| 5,261             | 13.6         | 4,761            | 12.6         | 4,381            | 11.5         | 3,829            | 11.8         | 3,638            | 12.0         |
| 238               | 0.6          | 318              | 0.8          | 398              | 1.0          | 324              | 1.0          | 414              | 1.4          |
| 5,231             | 13.5         | 5,012            | 13.2         | 4,717            | 12.4         | 4,405            | 13.6         | 4,047            | 13.3         |
| 21                | 0.1          | 34               | 0.1          | 47               | 0.1          | 73               | 0.2          | 102              | 0.3          |
| 2,562             | 6.6          | 2,566            | 6.8          | 2,469            | 6.5          | 2,602            | 8.0          | 2,532            | 8.3          |
| 1,382             | 3.6          | 1,408            | 3.7          | 1,237            | 3.3          | 1,212            | 3.7          | 1,215            | 4.0          |
| 1,277             | 3.3          | 999              | 2.6          | -                | -            | 499              | 1.5          | 862              | 2.8          |
| 6,551             | 16.9         | 7,526            | 19.9         | 10,073           | 26.5         | 6,193            | 19.1         | 4,883            | 16.1         |
| <u>\$ 38,815</u>  | <u>100.0</u> | <u>\$ 37,827</u> | <u>100.0</u> | <u>\$ 38,022</u> | <u>100.0</u> | <u>\$ 32,462</u> | <u>100.0</u> | <u>\$ 30,417</u> | <u>100.0</u> |
| <u>\$ (1,788)</u> |              | <u>\$ 1,429</u>  |              | <u>\$ 153</u>    |              | <u>\$ 810</u>    |              | <u>\$ 833</u>    |              |

## Personal Income by Industry Last Ten Calendar Years

(Amounts in millions)

|  | 2006              | 2005              | 2004              | 2003              | 2002              |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Total personal income.....</b>                  | <b>\$ 297,755</b> | <b>\$ 279,635</b> | <b>\$ 270,145</b> | <b>\$ 253,528</b> | <b>\$ 249,889</b> |
| Unearned Income.....                               | 61,624            | 54,785            | 51,770            | 49,759            | 50,390            |
| Farm earnings.....                                 | 101               | 121               | 115               | 111               | 97                |
| Nonfarm earnings.....                              | 236,030           | 224,729           | 218,260           | 203,659           | 199,402           |
| <b>Private earnings.....</b>                       | <b>208,522</b>    | <b>198,825</b>    | <b>192,668</b>    | <b>180,248</b>    | <b>176,504</b>    |
| Agricultural services, forestry, fishing.....      | 499               | 526               | 489               | 437               | 410               |
| Mining.....  | 384               | 565               | 326               | 332               | 298               |
| Construction.....                                  | 13,172            | 12,963            | 12,303            | 11,808            | 11,779            |
| <b>Manufacturing.....</b>                          | <b>26,242</b>     | <b>26,009</b>     | <b>25,807</b>     | <b>25,616</b>     | <b>25,519</b>     |
| Durable goods.....                                 | 18,514            | 18,344            | 18,614            | 18,192            | 18,346            |
| Nondurable goods.....                              | 7,728             | 7,665             | 7,193             | 7,424             | 7,173             |
| Transportation and utilities.....                  | 5,997             | 5,424             | 5,463             | 5,206             | 5,140             |
| Wholesale trade.....                               | 12,642            | 11,450            | 11,516            | 10,931            | 10,350            |
| Retail trade.....                                  | 12,496            | 12,771            | 12,614            | 12,047            | 11,660            |
| Services.....                                      | 137,091           | 129,116           | 124,152           | 113,871           | 111,346           |
| <b>Government.....</b>                             | <b>27,508</b>     | <b>25,904</b>     | <b>25,592</b>     | <b>23,411</b>     | <b>22,898</b>     |
| Federal, civilian.....                             | 4,877             | 4,659             | 4,600             | 4,223             | 4,171             |
| Military.....                                      | 983               | 1,031             | 931               | 661               | 597               |
| State and local.....                               | 21,647            | 20,214            | 20,061            | 18,527            | 18,130            |
| Personal income tax revenue (statutory basis)..... | \$ 10,483         | \$ 9,690          | \$ 8,830          | \$ 8,026          | \$ 7,913          |
| Total personal income.....                         | \$ 297,755        | \$ 279,635        | \$ 270,145        | \$ 253,528        | \$ 249,889        |
| Average Effective Rate.....                        | 3.5%              | 3.5%              | 3.3%              | 3.2%              | 3.2%              |
| Highest Income Tax Rate.....                       | 5.3%              | 5.3%              | 5.3%              | 5.3%              | 5.3%              |

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue.

| 2001           | 2000           | 1999           | 1998           |
|----------------|----------------|----------------|----------------|
| \$ 249,243     | \$ 240,209     | \$ 216,221     | \$ 203,987     |
| 47,974         | 44,369         | 41,094         | 42,370         |
| 107            | 116            | 106            | 107            |
| 201,162        | 195,723        | 175,021        | 161,510        |
| <b>179,116</b> | <b>174,388</b> | <b>154,549</b> | <b>142,198</b> |
| 400            | 960            | 871            | 769            |
| 360            | 141            | 136            | 110            |
| 11,463         | 10,097         | 8,886          | 7,839          |
| <b>26,675</b>  | <b>31,272</b>  | <b>27,798</b>  | <b>26,378</b>  |
| 19,685         | 21,622         | 18,777         | 17,749         |
| 6,989          | 9,649          | 9,021          | 8,629          |
| 5,238          | 9,506          | 8,542          | 7,952          |
| 10,806         | 13,411         | 12,378         | 11,031         |
| 11,358         | 15,308         | 14,231         | 13,397         |
| 112,815        | 93,694         | 81,706         | 74,721         |
| <b>22,046</b>  | <b>21,335</b>  | <b>20,472</b>  | <b>19,312</b>  |
| 4,023          | 3,894          | 3,766          | 3,545          |
| 562            | 556            | 534            | 532            |
| 17,461         | 16,885         | 16,172         | 15,235         |
| \$ 9,903       | \$ 9,042       | \$ 8,037       | \$ 8,032       |
| \$ 249,243     | \$ 240,209     | \$ 216,221     | \$ 203,987     |
| 4.0%           | 3.8%           | 3.7%           | 3.9%           |
| 5.6%           | 5.85%          | 5.95%          | 5.95%          |

*Average effective rate is individual income tax revenue divided by personal income.*



**Commonwealth of Massachusetts**  
**Personal Income Tax Filers and Liability by Income Level**  
**Calendar (Tax) Years 2005 and 1996**

(Amounts, except income level are in thousands)

| <b><u>Calendar Year 2005 (or Fiscal Year 2006)</u></b> |                                |                                   |   |                                   |
|--|--------------------------------|-----------------------------------|---|-----------------------------------|
| <b><u>Income Level</u></b>                             | <b><u>Number of Filers</u></b> | <b><u>Percentage of Total</u></b> | <b><u>Personal Income Tax Liability</u></b> | <b><u>Percentage of Total</u></b> |
| \$100,001 and higher                                   | 480,031                        | 14%                               | \$ 5,991,491                                | 63%                               |
| \$75,001 - \$100,000                                   | 275,214                        | 8%                                | 1,033,610                                   | 11%                               |
| \$50,001 - \$75,000                                    | 450,165                        | 13%                               | 1,147,388                                   | 12%                               |
| \$25,001 - \$50,000                                    | 789,993                        | 24%                               | 1,072,826                                   | 11%                               |
| \$10,001 - \$25,000                                    | 668,782                        | 20%                               | 295,796                                     | 3%                                |
| \$10,000 and lower                                     | 696,332                        | 21%                               | 28,351                                      | 0%                                |
| Total  | 3,360,517                      | 100%                              | \$ 9,569,462                                | 100%                              |

| <b><u>Calendar Year 1996 (or Fiscal Year 1997)</u></b> |                                |                                   |   |                                   |
|--|--------------------------------|-----------------------------------|---|-----------------------------------|
| <b><u>Income Level</u></b>                             | <b><u>Number of Filers</u></b> | <b><u>Percentage of Total</u></b> | <b><u>Personal Income Tax Liability</u></b> | <b><u>Percentage of Total</u></b> |
| \$100,001 and higher                                   | 203,111                        | 7%                                | \$ 2,717,175                                | 43%                               |
| \$75,001 - \$100,000                                   | 176,527                        | 6%                                | 785,652                                     | 12%                               |
| \$50,001 - \$75,000                                    | 386,219                        | 13%                               | 1,169,735                                   | 18%                               |
| \$25,001 - \$50,000                                    | 773,801                        | 26%                               | 1,294,431                                   | 20%                               |
| \$10,001 - \$25,000                                    | 743,506                        | 25%                               | 448,719                                     | 7%                                |
| \$10,000 and lower                                     | 676,394                        | 23%                               | 30,185                                      | 0%                                |
| Total  | 2,959,558                      | 100%                              | \$ 6,445,897                                | 100%                              |

Source: Massachusetts Department of Revenue - data is from last closed tax years.

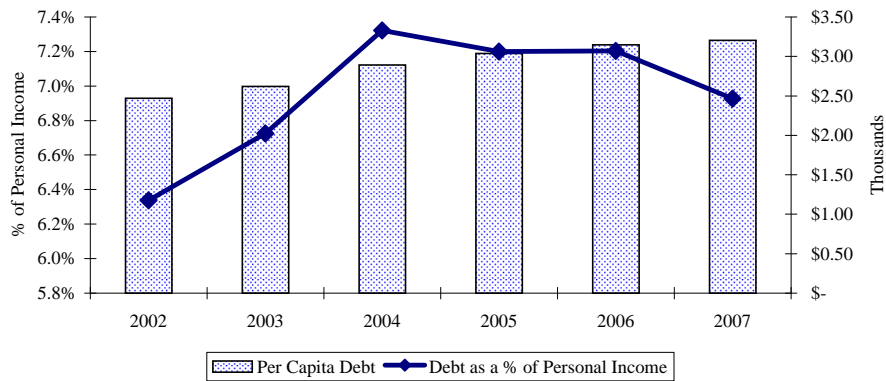
## Six-Year Schedule Of Per Capita General Long-Term Bonded Debt and Capital Leases

(Amounts in thousands, except for percentages)

| Fiscal year ended<br>June 30 | Governmental Activities<br>Bonded Debt <sup>(2)</sup> | Governmental Activities<br>Capital Leases <sup>(2)</sup> | Business-Type Activities<br>Bonded Debt <sup>(2)</sup> | Business-Type Activities<br>Capital Leases <sup>(2)</sup> | Total<br>Primary<br>Government | Prior Year<br>Personal Income | Massachusetts<br>Resident<br>Population <sup>(1)</sup> | Debt as a<br>Percentage<br>of<br>Personal Income | Amount<br>of<br>Debt<br>Per Capita |
|------------------------------|---|--|--|---|--------------------------------|-------------------------------|--|--|------------------------------------|
| 2007                         | \$ 18,839,004   | 81,351   | 1,624,617  | 83,443  | 20,628,415                     | 297,754,674                   | 6,437  | 6.9%   | \$ 3.20                            |
| 2006                         | 18,461,406  | 74,552   | 1,519,727  | 87,798  | 20,143,483                     | 279,635,404                   | 6,399  | 7.2%   | 3.15                               |
| 2005                         | 17,856,799  | 71,018   | 1,421,557  | 101,596   | 19,450,970                     | 270,144,644                   | 6,407  | 7.2%   | 3.04                               |
| 2004                         | 17,382,172  | 57,900   | 1,049,095  | 73,971  | 18,563,138                     | 253,527,948                   | 6,418  | 7.3%   | 2.89                               |
| 2003                         | 15,962,506  | 75,754   | 673,398  | 91,934  | 16,803,592                     | 249,889,456                   | 6,412  | 6.7%   | 2.62                               |
| 2002                         | 14,955,135  | 91,146   | 670,432  | 79,880  | 15,796,593                     | 249,243,450                   | 6,395  | 6.3%   | 2.47                               |

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source:* - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.) (2) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes. Capital leases above exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit.

**Six Year Per Capita Debt and Capital Leases**



## Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

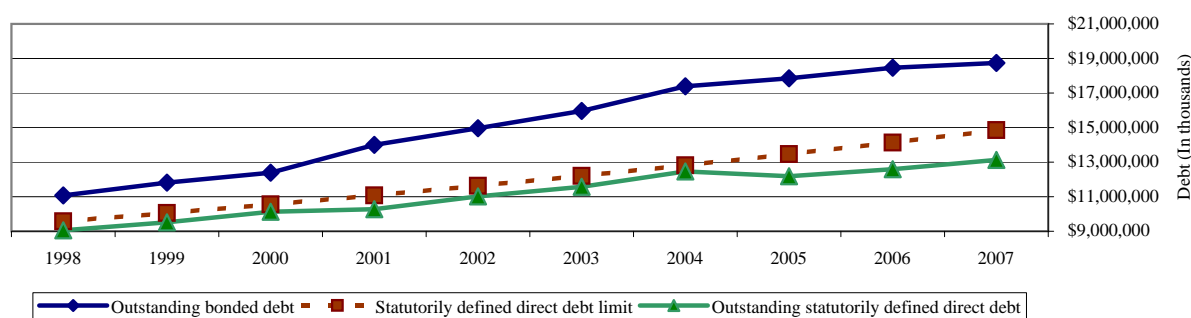
(Amounts in thousands)

|  | 2007                 | 2006                 | 2005                 | 2004                 |
|--|----------------------|----------------------|----------------------|----------------------|
| Outstanding debt for Statutory Purposes as of June 30 <b>(2)</b> ..... | \$ 18,736,961        | \$ 18,461,406        | \$ 17,856,799        | \$ 17,382,172        |
| Less amounts excluded by statute:                                      |                      |                      |                      |                      |
| Central artery project bonds principal.....                            | (1,462,870)          | (1,476,287)          | (1,336,741)          | (1,066,638)          |
| Chapter 5 of the Acts of 1992 bonds principal.....                     | -                    | -                    | -                    | -                    |
| County debt assumed.....   | (450)                | (525)                | (600)                | (675)                |
| Premium / (Discount) and issuance costs.....                           | 102,048              | 112,673              | 70,937               | 1,120                |
| Fiscal recovery bonds principal.....                                   | -                    | -                    | -                    | -                    |
| Grant anticipation notes (GANs) principal <b>(1)</b> .....             | (1,666,690)          | (1,789,876)          | (1,908,015)          | (1,908,015)          |
| School Modernization and Reconstruction Trust bonds.....               | (946,285)            | (1,000,002)          | (500,000)            | -                    |
| Convention Center bonds principal.....                                 | (617,226)            | (643,715)            | (693,400)            | -                    |
| MBTA forward funding bonds principal.....                              | (368,873)            | (416,830)            | (511,546)            | (601,027)            |
| Special obligation bonds principal <b>(1)</b> .....                    | (643,715)            | (647,551)            | (792,148)            | (1,347,882)          |
| Outstanding statutorily defined direct debt.....                       | <u>\$ 13,132,900</u> | <u>\$ 12,599,293</u> | <u>\$ 12,185,286</u> | <u>\$ 12,459,055</u> |
| Statutorily defined direct debt limit.....                             | <u>\$ 14,843,547</u> | <u>\$ 14,136,712</u> | <u>\$ 13,463,535</u> | <u>\$ 12,822,414</u> |
| Debt margin (Debt limit less direct debt).....                         | <u>\$ 1,710,647</u>  | <u>\$ 1,537,418</u>  | <u>\$ 1,278,249</u>  | <u>\$ 363,359</u>    |
| Debt margin as a percentage of direct debt limit.....                  | <u>11.52%</u>        | <u>10.88%</u>        | <u>9.49%</u>         | <u>2.83%</u>         |

**(1) Inclusive of Crossover Refunding Amounts.**

**(2) Exclusive of the Massachusetts School Building Authority debt.**

### Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit 1998 - 2007



| 2003                 | 2002                 | 2001                 | 2000                 | 1999                 | 1998                |
|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|
| \$ 15,962,506        | \$ 14,955,135        | \$ 13,999,454        | \$ 12,383,101        | \$ 11,808,461        | \$ 11,078,603       |
| (1,386,869)          | (838,193)            | (999,995)            | -                    | -                    | -                   |
| (10,600)             | (22,043)             | (71,054)             | (114,761)            | (130,069)            | (144,509)           |
| (855)                | (1,115)              | (1,375)              | (2,105)              | (2,345)              | (1,525)             |
| (68,718)             | (181,910)            | (282,829)            | (358,938)            | (677,326)            | (702,014)           |
| -                    | -                    | -                    | -                    | -                    | -                   |
| (1,500,000)          | (1,500,000)          | (1,500,000)          | (899,991)            | (899,991)            | (580,557)           |
| -                    | -                    | -                    | -                    | -                    | -                   |
| -                    | -                    | -                    | -                    | -                    | -                   |
| (680,869)            | (625,000)            | (325,000)            | (325,000)            | -                    | -                   |
| (748,124)            | (772,812)            | (539,242)            | (561,335)            | (582,410)            | (602,531)           |
| <u>\$ 11,566,472</u> | <u>\$ 11,014,062</u> | <u>\$ 10,279,959</u> | <u>\$ 10,120,971</u> | <u>\$ 9,516,320</u>  | <u>\$ 9,047,467</u> |
| <u>\$ 12,211,823</u> | <u>\$ 11,630,307</u> | <u>\$ 11,076,483</u> | <u>\$ 10,549,032</u> | <u>\$ 10,046,697</u> | <u>\$ 9,568,283</u> |
| <u>\$ 645,352</u>    | <u>\$ 616,245</u>    | <u>\$ 796,524</u>    | <u>\$ 428,061</u>    | <u>\$ 530,377</u>    | <u>\$ 520,816</u>   |
| <u>5.28%</u>         | <u>5.30%</u>         | <u>7.19%</u>         | <u>4.06%</u>         | <u>5.28%</u>         | <u>5.44%</u>        |

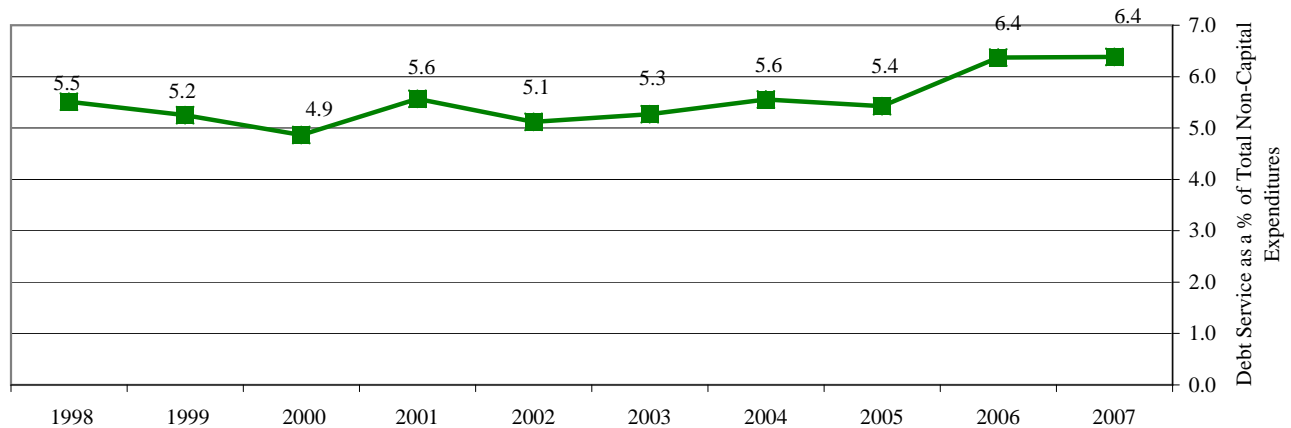
**Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures  
For General Bonded Debt To Total Non-Capital Expenditures - Fund Perspective  
All Governmental Fund Types**

(Amounts in millions)

| Fiscal year ended<br>June 30 | Debt<br>service | Total<br>Non-capital expenditures | Ratio |
|------------------------------|-----------------|-----------------------------------|-------|
| 2007                         | \$ 2,166        | \$ 33,918                         | 6.4   |
| 2006                         | 2,028           | 31,831                            | 6.4   |
| 2005                         | 1,719           | 31,700                            | 5.4   |
| 2004                         | 1,605           | 28,888                            | 5.6   |
| 2003                         | 1,467           | 27,858                            | 5.3   |
| 2002                         | 1,382           | 26,998                            | 5.1   |
| 2001                         | 1,408           | 25,295                            | 5.6   |
| 2000                         | 1,237           | 25,433                            | 4.9   |
| 1999                         | 1,212           | 23,097                            | 5.2   |
| 1998                         | 1,215           | 22,037                            | 5.5   |

*Amounts are shown net of Massachusetts School Building Authority expenditures and debt service. Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities.*

**Debt Service to Non-Capital Expenditures Ratio 1998- 2007**



### Component Units Revenue Bond Coverage For The Last Ten Fiscal Years

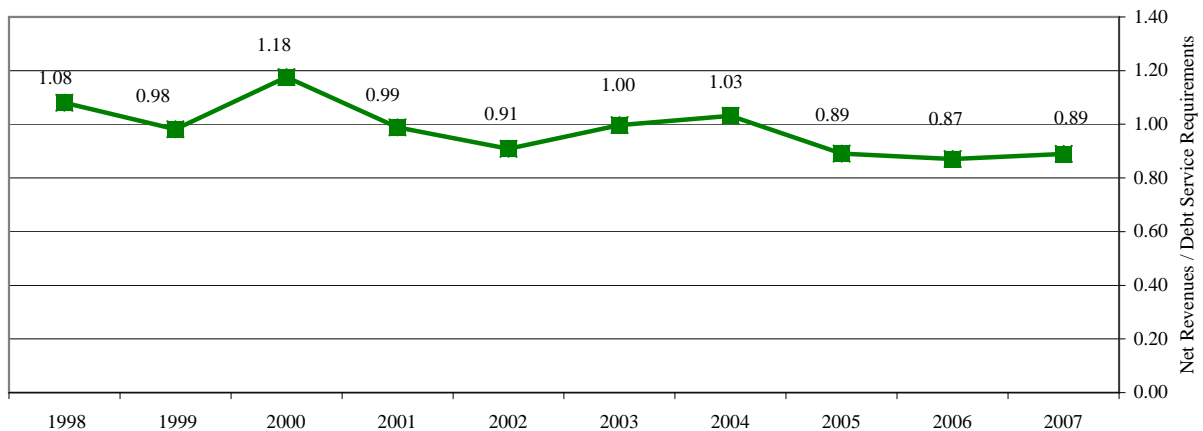
(Amounts in thousands)

| Fiscal year<br>ended June 30 | Net revenues <sup>(1)</sup> | Debt service<br>requirements <sup>(2)</sup> | Coverage<br>Ratio |
|------------------------------|-----------------------------|---|-------------------|
| 2007                         | \$ 870,919                  | \$ 978,819                                  | 0.89              |
| 2006                         | 717,190                     | 823,406                                     | 0.87              |
| 2005                         | 648,282                     | 727,316                                     | 0.89              |
| 2004                         | 700,677                     | 679,457                                     | 1.03              |
| 2003                         | 663,234                     | 665,538                                     | 1.00              |
| 2002                         | 716,951                     | 789,318                                     | 0.91              |
| 2001                         | 520,850                     | 526,605                                     | 0.99              |
| 2000                         | 600,812                     | 510,876                                     | 1.18              |
| 1999                         | 393,785                     | 401,406                                     | 0.98              |
| 1998                         | 372,672                     | 344,884                                     | 1.08              |

- (1) Net revenues represent the regular recurring operating income (loss) plus operating grants transfers and depreciation of only those Authorities with revenue bonds outstanding
- (2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding

Source: Office of the Comptroller

#### Component Units Revenue Bond Coverage 1998 - 2007



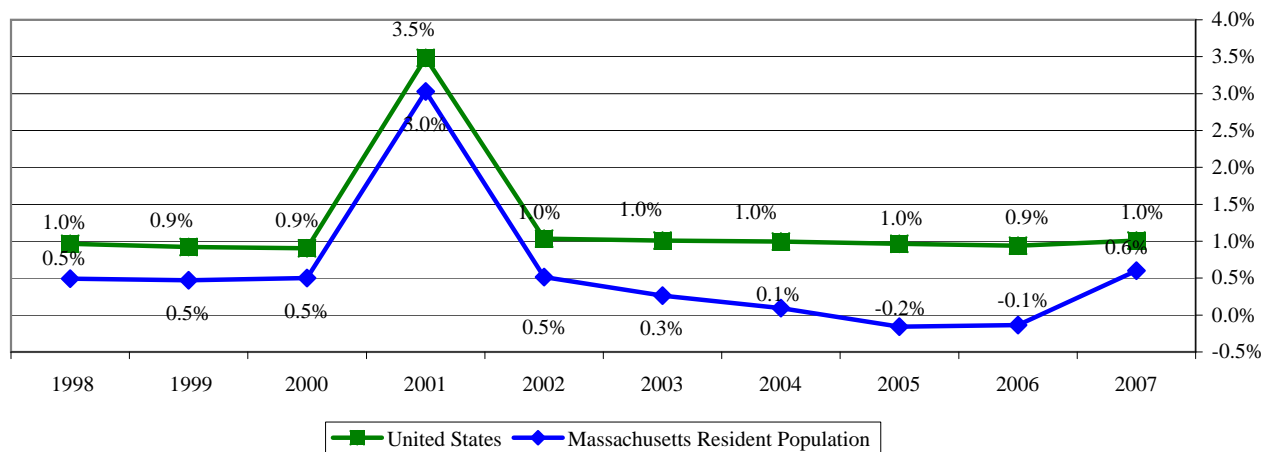
## Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

| Year | United States | % Change | Massachusetts Resident Population <sup>(1)</sup> | % Change | Massachusetts as % of U.S. |
|------|---------------|----------|--|----------|----------------------------|
| 2007 | 299,398       | 1.0%     | 6,437  | 0.6%     | 2.2%                       |
| 2006 | 296,410       | 0.9%     | 6,399  | -0.1%    | 2.2%                       |
| 2005 | 293,657       | 1.0%     | 6,407  | -0.2%    | 2.2%                       |
| 2004 | 290,850       | 1.0%     | 6,418  | 0.1%     | 2.2%                       |
| 2003 | 287,985       | 1.0%     | 6,412  | 0.3%     | 2.2%                       |
| 2002 | 285,108       | 1.0%     | 6,395  | 0.5%     | 2.2%                       |
| 2001 | 282,192       | 3.5%     | 6,362  | 3.0%     | 2.3%                       |
| 2000 | 272,691       | 0.9%     | 6,175  | 0.5%     | 2.3%                       |
| 1999 | 270,248       | 0.9%     | 6,144  | 0.5%     | 2.3%                       |
| 1998 | 267,784       | 1.0%     | 6,115  | 0.5%     | 2.3%                       |

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.). FY01 reflects census 2000 data.

### Massachusetts and United States Estimated Year- to- Year Population Change 1998 - 2007

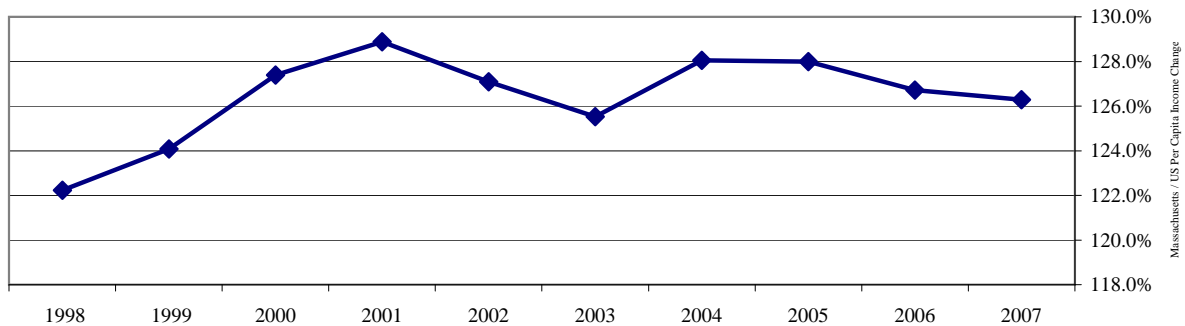


## Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

| Year | United States (1) | % Change | Massachusetts (1) | % Change | Massachusetts as % of U.S. |
|------|-------------------|----------|-------------------|----------|----------------------------|
| 2007 | \$ 36,629         | -0.2%    | \$ 46,255         | -0.6%    | 126.3%                     |
| 2006 | 36,715            | 6.4%     | 46,523            | 5.4%     | 126.7%                     |
| 2005 | 34,499            | 5.5%     | 44,157            | 5.4%     | 128.0%                     |
| 2004 | 32,705            | 4.6%     | 41,879            | 6.7%     | 128.1%                     |
| 2003 | 31,264            | 2.4%     | 39,243            | 1.1%     | 125.5%                     |
| 2002 | 30,529            | 1.3%     | 38,801            | -0.1%    | 127.1%                     |
| 2001 | 30,128            | 2.7%     | 38,828            | 3.9%     | 128.9%                     |
| 2000 | 29,341            | 3.8%     | 37,377            | 6.5%     | 127.4%                     |
| 1999 | 28,278            | 3.5%     | 35,087            | 5.1%     | 124.1%                     |
| 1998 | 27,322            | 5.6%     | 33,394            | 6.6%     | 122.2%                     |

Source: - United States Department of Commerce, Bureau of Economic Analysis, 2007 of June 30, 2007. 2002 restated by BEA. (1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.)

**Massachusetts vs. United States Year- to- Year Per Capita Net Income Change  
1998 - 2007**





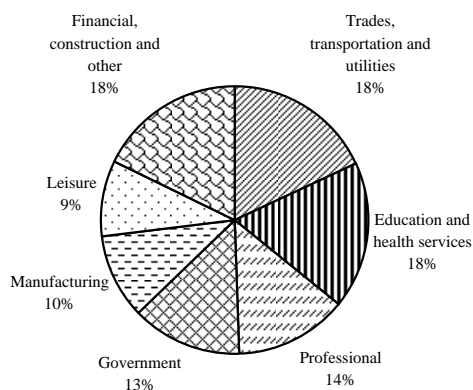
## Nonagricultural Employment By Sector and Industry In Massachusetts And The United States For 2007

(Amounts in thousands)

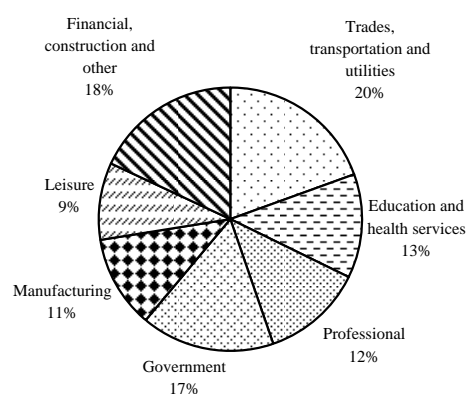
| Type of industry                                  | Massachusetts | % of<br>MA Total | United States  | % of<br>U.S. Total | MA %<br>vs. U.S. % |
|---|---------------|------------------|----------------|--------------------|--------------------|
| Manufacturing - Durable and nondurable goods      | 297           | 9.1%             | 14,056         | 10.2%              | 88.9%              |
| Non-manufacturing:                                |               |                  |                |                    |                    |
| Construction                                      | 140           | 4.3%             | 7,662          | 5.6%               | 76.8%              |
| Trade, Transportation and Utilities<br>Employment | 575           | 17.5%            | 26,469         | 19.2%              | 91.3%              |
| Education and health services                     | 622           | 19.0%            | 18,357         | 13.3%              | 142.5%             |
| Financial activities                              | 225           | 6.8%             | 8,462          | 6.1%               | 111.7%             |
| Information activities                            | 89            | 2.7%             | 3,096          | 2.2%               | 120.5%             |
| Leisure and hospitality services                  | 299           | 9.1%             | 13,570         | 9.8%               | 92.6%              |
| Professional and business services                | 483           | 14.7%            | 17,900         | 13.0%              | 113.5%             |
| Natural Resources, Mining and Other               | 122           | 3.7%             | 6,203          | 4.5%               | 82.5%              |
| Federal, state and local government               | 431           | 13.1%            | 22,255         | 16.1%              | 81.5%              |
| <b>Total Non-manufacturing</b>                    | <b>2,984</b>  | <b>90.9%</b>     | <b>123,974</b> | <b>89.8%</b>       | <b>101.3%</b>      |
| <b>Total</b>                                      | <b>3,281</b>  | <b>100.0%</b>    | <b>138,030</b> | <b>100.0%</b>      |                    |

Source: - Federal Reserve Bank of Boston - Bureau of Labor Statistics, September, 2007 for June 2007.

**Massachusetts Employment by Industry  
June 2007**



**United States Employment by Industry  
June 2007**



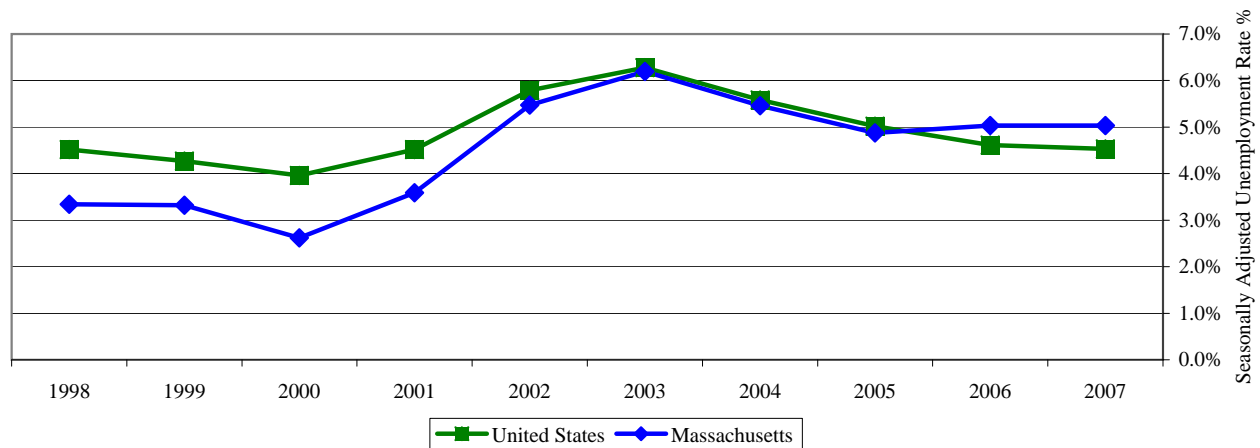
# **Ten-Year Schedule Of Annual Average Civilian Labor Force, Unemployment And Unemployment Rates For Massachusetts And The United States**

(Amounts in thousands)

| Year | Massachusetts  |              |                        | United States  |              |                        | Massachusetts<br>Rate as %<br>of U.S. Rate |
|------|----------------|--------------|------------------------|----------------|--------------|------------------------|--|
|      | Labor<br>Force | Unemployment | Unemployment<br>Rate % | Labor<br>Force | Unemployment | Unemployment<br>Rate % |  |
| 2007 | 3,475          | 175          | 5.0%                   | 153,072        | 6,933        | 4.5%                   | 111.2%                                     |
| 2006 | 3,445          | 173          | 5.0%                   | 151,370        | 6,984        | 4.6%                   | 109.1%                                     |
| 2005 | 3,411          | 166          | 4.9%                   | 149,243        | 7,493        | 5.0%                   | 97.2%                                      |
| 2004 | 3,425          | 187          | 5.5%                   | 147,386        | 8,228        | 5.6%                   | 97.8%                                      |
| 2003 | 3,461          | 214          | 6.2%                   | 147,003        | 9,228        | 6.3%                   | 98.7%                                      |
| 2002 | 3,468          | 190          | 5.5%                   | 144,802        | 8,379        | 5.8%                   | 94.6%                                      |
| 2001 | 3,399          | 122          | 3.6%                   | 143,361        | 6,480        | 4.5%                   | 79.4%                                      |
| 2000 | 3,364          | 88           | 2.6%                   | 142,591        | 5,651        | 4.0%                   | 66.1%                                      |
| 1999 | 3,357          | 112          | 3.3%                   | 139,329        | 5,951        | 4.3%                   | 77.8%                                      |
| 1998 | 3,318          | 111          | 3.3%                   | 137,455        | 6,212        | 4.5%                   | 74.0%                                      |

*Source: - Federal Bureau of Labor Statistics, November 2007. Amounts and rates previous from 2001 through 2004 have been restated for all data due to new benchmarking by the Bureau of Labor Statistics during 2001 to 2004. The differential between average labor force and nonagricultural employment is agricultural employment. Seasonally adjusted.*

**Massachusetts and United States Unemployment Rates  
Seasonally Adjusted June 1998 - June 2007**



**Largest Private Sector Massachusetts Employers 2007 and 1998**  
(Alphabetical Order)

| <u>2007</u>                              |                     |                                | <u>1998</u>                              |                     |                                 |
|--|---------------------|--------------------------------|--|---------------------|---------------------------------|
| <u>Employer</u>                          | <u>Headquarters</u> | <u>Product or Service</u>      | <u>Employer</u>                          | <u>Headquarters</u> | <u>Product or Service</u>       |
| Bay State Medical Center, Inc.           | Springfield         | Hospital                       | Bank Boston                              | Boston              | Banking                         |
| Beth Israel Deaconess Medical Center     | Boston              | Hospital                       | Beth Israel Deaconess Medical Center     | Boston              | Hospital                        |
| Boston Medical Center Corporation        | Boston              | Hospital                       | Big Y Foods, Inc.                        | Springfield         | Supermarket                     |
| Boston University                        | Boston              | University                     | Boston University                        | Boston              | University                      |
| Brigham and Women's Hospital, Inc.       | Boston              | Hospital                       | Brigham and Women's Hospital, Inc.       | Boston              | Hospital                        |
| DeMoulas Supermarkets, Inc.              | Tewksbury           | Supermarket                    | Digital Equipment Corporation            | Westborough         | Technology                      |
| EMC Corporation                          | Hopkinton           | Computer Storage & Peripherals | Friendly Ice Cream Corporation           | Wilbraham           | Restaurants                     |
| Friendly Ice Cream Corporation           | Wilbraham           | Restaurants                    | Harvard Pilgrim Health Care Inc.         | Wellesley           | Health Maintenance Organization |
| General Hospital Corporation             | Boston              | Hospital                       | President and Fellows of Harvard College | Boston              | University                      |
| Massachusetts Institute of Technology    | Cambridge           | University                     | Massachusetts Institute of Technology    | Cambridge           | University                      |
| New England Medical Center               | Boston              | Hospital                       | Massachusetts General Hospital           | Boston              | Hospital                        |
| President and Fellows of Harvard College | Boston              | University                     | Polaroid Corporation                     | Cambridge           | Photography                     |
| Raytheon Company                         | Lexington           | Electronics / Defense          | Raytheon Company                         | Lexington           | Electronics / Defense           |
| Shaw's Supermarkets, Inc.                | West Bridgewater    | Supermarket                    | Shaw's Supermarkets, Inc.                | West Bridgewater    | Supermarket                     |
| Southcoast Hospitals Group               | New Bedford         | Hospital                       | Star Markets Company Inc.                | Boston              | Supermarket                     |
| State Street Corp.                       | Boston              | Banking                        | State Street Bank and Trust              | Boston              | Banking                         |
| The Children's Hospital Corporation      | Boston              | Hospital                       |  |                     |                                 |
| UMASS Memorial Medical Center, Inc.      | Worcester           | Hospital                       |  |                     |                                 |
| Verizon New England, Inc.                | Boston              | Telecommunications             |  |                     |                                 |

Sources: - Massachusetts Department of Unemployment Assistance- March 2007 survey. In addition, Bank of America NA, Federated Retail Holdings, Inc, Home Depot USA, Inc., International Business Machines Corporation, S&S Credit Company, Inc., United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York.

## Standard and Poors 500 Companies Headquartered in Massachusetts

| <u>Company</u>           | <u>Stock<br/>Symbol</u> | <u>Headquarters</u> | <u>Product or<br/>Service</u>      | <u>Worldwide<br/>Employees</u> | <u>Latest Audited<br/>Revenues (\$millions)</u> | <u>Fortune 500 Rank</u> |             |
|--------------------------|-------------------------|---------------------|------------------------------------|--------------------------------|---|-------------------------|-------------|
|                          |                         |                     |                                    |                                |   | <u>2007</u>             | <u>2006</u> |
| Raytheon Company (New)   | RTN                     | Lexington           | Aerospace & Defense                | 71,351                         | \$ 20,291                                       | 96                      | 97          |
| Staples Inc.             | SPLS                    | Framingham          | Specialty Stores                   | 73,646                         | 18,161  | 126                     | 137         |
| TJX Companies Inc.       | TJX                     | Framingham          | Apparel Retail                     | 125,000                        | 17,405  | 133                     | 138         |
| EMC Corporation          | EMC                     | Hopkinton           | Computer Storage & Peripherals     | 31,100                         | 11,155  | 224                     | 249         |
| State Street Corp.       | STT                     | Boston              | Diversified Financial Services     | 21,700                         | 6,296   | 263                     | 307         |
| Boston Scientific        | BSX                     | Natick              | Health Care Equipment              | 28,600                         | 7,821   | 308                     | 346         |
| Thermo Fisher Scientific | TMO                     | Norwood             | Semiconductors                     | 30,500                         | 3,792   | -                       | -           |
| Analog Devices           | ADI                     | Waltham             | Electronic Equipment & Instruments | 9,800                          | 2,609   | -                       | -           |
| Biogen IDEC Inc.         | BIIB                    | Cambridge           | Electronic Equipment & Instruments | 3,750                          | 2,683   | -                       | -           |
| PerkinElmer, Inc.        | PKI                     | Wellesley           | Biotechnology                      | 8,500                          | 1,546   | -                       | -           |
| Waters Corporation       | WAT                     | Milford             | Electronic Equipment & Instruments | 4,687                          | 1,280   | -                       | -           |
| Teradyne, Inc.           | TER                     | Boston              | Semiconductor Equipment            | 3,600                          | 1,377   | -                       | -           |
| Millipore Corp.          | MIL                     | Billerica           | Electronic Equipment & Instruments | 6,100                          | 1,255   | -                       | -           |
| Boston Properties        | BXP                     | Boston              | Financials                         | 650                            | 1,502   | -                       | -           |
| Genzyme Corp             | GENZ                    | Cambridge           | Health Care                        | 9,000                          | 3,187   | -                       | -           |
| Novell Inc.              | NOVL                    | Waltham             | Information Technology             | 4,549                          | 955   | -                       | -           |

Sources: - Standard and Poors (from [Standardandpoors.com](http://Standardandpoors.com)) , the Boston Globe (May 13, 2007 section F) and Fortune Magazine (from [fortune.com](http://fortune.com)).  
Massachusetts Mutual Life Insurance, Liberty Mutual Insurance Group, BJ's Wholesale Club and Global Partners are part of the Fortune 500, but are not part of the Standard & Poors 500.

**Full Time Equivalent Employees  
By Function / Program  
Last Ten Years**

| Functions / Programs                     | 2007          | 2006          | 2005          | 2004          | 2003          |
|--|---------------|---------------|---------------|---------------|---------------|
| General Government.....                  | 6,204         | 6,177         | 5,750         | 5,449         | 5,644         |
| Judiciary.....                           | 7,993         | 7,635         | 7,467         | 7,099         | 7,198         |
| Environmental and recreation.....        | 2,847         | 2,686         | 2,744         | 2,612         | 2,814         |
| Health and human services.....           | 22,972        | 22,935        | 22,855        | 22,229        | 23,087        |
| Transportation and construction.....     | 1,903         | 2,708         | 2,759         | 1,794         | 1,843         |
| Education.....                           | 617           | 651           | 587           | 569           | 579           |
| Public safety and homeland security..... | 14,550        | 13,517        | 13,152        | 13,578        | 13,964        |
| Energy and economic development.....     | 2,339         | 2,264         | 2,299         | 2,300         | 2,322         |
| Higher Education:                        |               |               |               |               |               |
| University of Massachusetts.....         | 13,602        | 13,360        | 12,807        | 12,356        | 12,513        |
| State colleges.....                      | 4,495         | 4,301         | 4,224         | 3,914         | 3,957         |
| Community colleges.....                  | 4,689         | 4,603         | 4,523         | 4,219         | 4,408         |
| <b>Totals.....</b>                       | <b>82,211</b> | <b>80,837</b> | <b>79,167</b> | <b>76,120</b> | <b>78,328</b> |
| <b>Percentage Change .....</b>           | <b>2%</b>     | <b>2%</b>     | <b>4%</b>     | <b>-3%</b>    | <b>0%</b>     |

Source: Office of the State Comptroller, FY 2001 to FY 2007, University of Massachusetts reported by the University.

"Education" includes the Board of Higher Education. For FY2005, Transportation and Construction includes the Registry of Motor Vehicles (formerly Public Safety.) Measurement date is the closest pay period end to June 30. FTE's are rounded. Higher education FTE's exclude part time contractors paid from campus - based systems.

| 2002          | 2001          | 2000          | 1999          | 1998          | Change - 2007 from<br>1998 |
|---------------|---------------|---------------|---------------|---------------|----------------------------|
| 5,724         | 6,261         | 6,286         | 6,034         | 5,853         | 6%                         |
| 7,393         | 8,159         | 8,054         | 7,836         | 7,313         | 9%                         |
| 2,949         | 3,161         | 3,147         | 3,100         | 3,001         | -5%                        |
| 23,269        | 25,143        | 25,215        | 24,899        | 24,817        | -7%                        |
| 1,820         | 2,094         | 2,171         | 2,223         | 2,283         | -17%                       |
| 545           | 530           | 516           | 491           | 471           | 31%                        |
| 14,446        | 14,752        | 14,430        | 13,703        | 11,784        | 23%                        |
| 2,382         | 2,468         | 2,504         | 2,506         | 2,504         | -7%                        |
| 11,821        | 12,572        | 12,010        | 12,467        | 13,996        | -3%                        |
| 3,812         | 4,026         | 3,981         | 3,914         | 3,883         | 16%                        |
| 4,340         | 4,720         | 4,580         | 4,470         | 4,268         | 10%                        |
| <b>78,501</b> | <b>83,886</b> | <b>82,894</b> | <b>81,642</b> | <b>80,172</b> | 3%                         |
| <b>-6%</b>    | <b>1%</b>     | <b>2%</b>     | <b>2%</b>     | <b>3%</b>     |                            |

**Massachusetts Road Inventory  
Calendar Year End, Lane Miles by Type  
Last Ten Calendar Years**

| Calendar Year | Interstate | Arterial | Collector | Local  | Total  | % Change | Total Urban | Total Rural |
|---------------|------------|----------|-----------|--------|--------|----------|-------------|-------------|
| 2006          | 3,209      | 14,958   | 9,567     | 43,527 | 71,261 | 0.31%    | 81.0%       | 19.0%       |
| 2005          | 3,202      | 14,966   | 9,573     | 43,303 | 71,044 | 0.11%    | 81.0%       | 19.0%       |
| 2004          | 3,202      | 14,929   | 9,584     | 43,260 | 70,967 | 0.96%    | 81.0%       | 19.0%       |
| 2003          | 3,186      | 13,513   | 10,950    | 42,654 | 70,295 | 0.00%    | 68.7%       | 31.3%       |
| 2002          | 3,186      | 13,513   | 10,950    | 42,654 | 70,295 | 0.21%    | 68.7%       | 31.3%       |
| 2001          | 3,186      | 13,478   | 10,946    | 42,539 | 70,149 | 0.28%    | 68.7%       | 31.3%       |
| 2000          | 3,184      | 13,498   | 10,936    | 42,339 | 69,956 | 0.18%    | 68.7%       | 31.3%       |
| 1999          | 3,182      | 13,509   | 10,935    | 42,207 | 69,833 | 0.20%    | 68.7%       | 31.3%       |
| 1998          | 3,173      | 13,536   | 10,935    | 42,049 | 69,694 | 0.75%    | 68.8%       | 31.2%       |

*Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development Annual Road Inventory Reports. Exclusive of shoulders. 2003 was not updated from 2002. 1995 and before is unavailable, but is not expected to be materially different from 1996 and forward.*

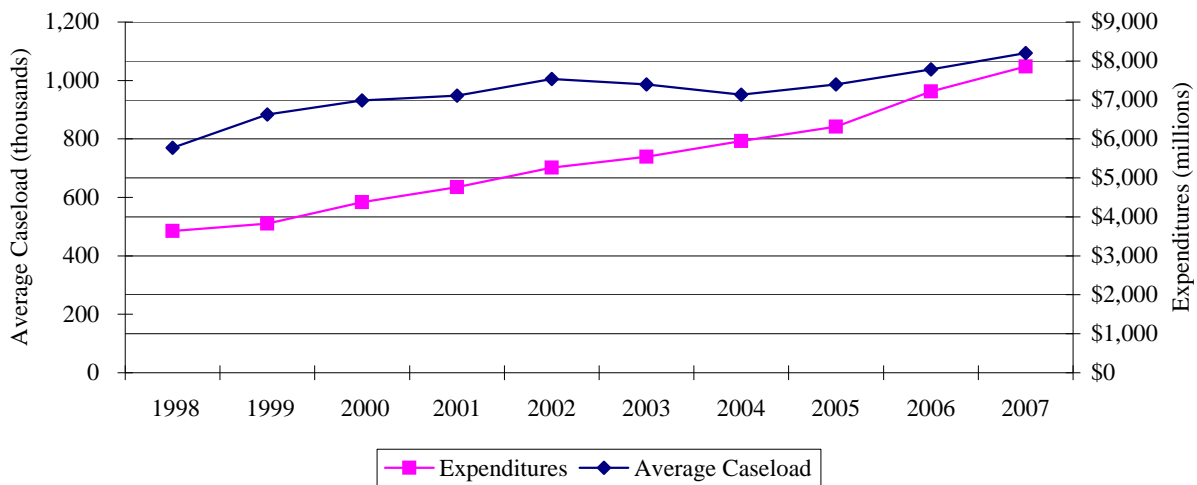
### Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective Last Ten Fiscal Years

(Caseload amounts in thousands, Expenditure amounts in Millions)

| Fiscal year ended<br>June 30 | Average Annual<br>Caseload | Medicaid<br>expenditures | Average<br>Expenditures per Case |
|------------------------------|----------------------------|--------------------------|----------------------------------|
| 2007                         | 1,094                      | \$ 7,862                 | \$ 7,186                         |
| 2006                         | 1,038                      | 7,219                    | 6,955                            |
| 2005                         | 986                        | 6,312                    | 6,402                            |
| 2004                         | 952                        | 5,946                    | 6,246                            |
| 2003                         | 987                        | 5,542                    | 5,617                            |
| 2002                         | 1,005                      | 5,261                    | 5,236                            |
| 2001                         | 948                        | 4,761                    | 5,020                            |
| 2000                         | 931                        | 4,381                    | 4,703                            |
| 1999                         | 883                        | 3,829                    | 4,336                            |
| 1998                         | 770                        | 3,638                    | 4,728                            |

Source: Executive Office for Health and Human Services.

**Average Annual Caseload and Medicaid Expenditures 1998 - 2007**





**Massachusetts Real Property Owned and Leased  
Annual Inventory, Acreage, Improvements and Square Footage  
Last Ten Years**

| Functions / Programs   | Survey Year<br>2007 | Survey Year<br>2006 | Survey Year<br>2005 | Survey Year<br>2004 | Survey Year<br>2003 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>General Government:</b>                                     |                     |                     |                     |                     |                     |
| Total Acreage  | 1,681               | 2,050               | 2,772               | 2,486               | 3,137               |
| Number of Improvements   | 84                  | 232                 | 300                 | 306                 | 263                 |
| Gross square footage   | 4,767,751           | 6,745,962           | 8,429,827           | 8,315,791           | 8,428,905           |
| <b>Judiciary:</b>  |                     |                     |                     |                     |                     |
| Total Acreage  | 135                 | 118                 | 117                 | 114                 | 113                 |
| Number of Improvements   | 71                  | 68                  | 68                  | 68                  | 68                  |
| Gross square footage   | 4,889,645           | 4,351,128           | 4,884,206           | 4,884,206           | 4,952,821           |
| <b>Environmental and recreation:</b>                           |                     |                     |                     |                     |                     |
| Total Acreage  | 586,173             | 569,282             | 558,347             | 552,857             | 539,437             |
| Number of Improvements   | 2,156               | 2,159               | 2,168               | 1,916               | 1,903               |
| Gross square footage   | 7,185,678           | 7,057,840           | 7,039,038           | 6,677,076           | 6,601,985           |
| <b>Economic development:</b>                                   |                     |                     |                     |                     |                     |
| Total Acreage  | 2                   | 2                   | 2                   | 2                   | 2                   |
| Number of Improvements   | 6                   | 6                   | 6                   | 6                   | 6                   |
| Gross square footage   | 77,642              | 77,642              | 76,812              | 76,812              | 76,812              |
| <b>Health and human services:</b>                              |                     |                     |                     |                     |                     |
| Total Acreage  | 7,604               | 7,615               | 7,311               | 7,284               | 7,561               |
| Number of Improvements   | 1,059               | 1,001               | 992                 | 997                 | 1,068               |
| Gross square footage   | 13,371,858          | 12,333,804          | 12,251,382          | 12,493,551          | 13,339,508          |
| <b>Transportation and public works:</b>                        |                     |                     |                     |                     |                     |
| Total Acreage  | 6,933               | 7,217               | 7,175               | 7,513               | 7,736               |
| Number of Improvements   | 914                 | 910                 | 908                 | 909                 | 909                 |
| Gross square footage   | 4,856,942           | 4,845,365           | 4,812,965           | 4,821,599           | 4,823,279           |
| <b>Education:</b>  |                     |                     |                     |                     |                     |
| Total Acreage  | 233                 | 233                 | 233                 | 234                 | 233                 |
| Number of Improvements   | 43                  | 43                  | 43                  | 44                  | 43                  |
| Gross square footage   | 272,352             | 272,352             | 272,352             | 272,352             | 272,352             |
| <b>Public safety and homeland security:</b>                    |                     |                     |                     |                     |                     |
| Total Acreage  | 18,319              | 17,530              | 17,515              | 17,454              | 17,485              |
| Number of Improvements   | 1,031               | 1,026               | 1,038               | 1,037               | 1,069               |
| Gross square footage   | 12,768,250          | 12,885,742          | 13,137,177          | 13,131,414          | 13,563,676          |
| <b>Higher Education:</b>                                       |                     |                     |                     |                     |                     |
| Total Acreage  | 7,133               | 7,089               | 7,138               | 7,163               | 7,169               |
| Number of Improvements   | 932                 | 933                 | 941                 | 939                 | 935                 |
| Gross square footage   | 30,947,996          | 30,870,743          | 30,997,427          | 30,728,820          | 30,267,370          |
| <b>Totals for Commonwealth (exclusive of Component Units):</b> |                     |                     |                     |                     |                     |
| Total Acreage  | 628,212             | 611,136             | 600,609             | 595,107             | 582,873             |
| Number of Improvements   | 6,296               | 6,378               | 6,464               | 6,222               | 6,264               |
| Gross square footage   | 79,138,114          | 79,440,578          | 81,901,186          | 81,401,621          | 82,326,708          |
| <b>Percentage Change for Commonwealth:</b>                     |                     |                     |                     |                     |                     |
| Acreage  | 2.8%                | 1.8%                | 0.9%                | 2.1%                | 4.9%                |
| Improvements   | -1.3%               | -1.3%               | 3.9%                | -0.7%               | -5.7%               |
| Gross square footage   | -0.4%               | -3.0%               | 0.6%                | -1.1%               | -3.5%               |

*Source: Executive Office of Administration and Finance, Division of Capital Asset Management. 2002's large change was due to the absorption of county properties.*

| Survey Year<br>2002 | Survey Year<br>2001 | Survey Year<br>2000 | Survey Year<br>1999 | Survey Year<br>1998 |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| 3,750               | 4,142               | 3,476               | 3,289               | 3,860               |
| 352                 | 469                 | 395                 | 387                 | 459                 |
| 10,124,543          | 12,346,526          | 8,802,821           | 7,998,555           | 10,295,460          |
| 113                 | 113                 | 109                 | 76                  | 69                  |
| 68                  | 62                  | 57                  | 57                  | 38                  |
| 4,887,321           | 4,582,299           | 4,082,355           | 4,178,621           | 2,579,591           |
| 511,732             | 494,093             | 482,854             | 472,313             | 455,770             |
| 2,042               | 1,727               | 1,713               | 1,723               | 1,728               |
| 6,965,507           | 7,101,935           | 6,933,956           | 6,937,756           | 6,932,602           |
| 2                   | 2                   | 1                   | 1                   | 1                   |
| 6                   | 5                   | 6                   | 6                   | 6                   |
| 76,812              | 47,500              | 57,500              | 57,500              | 57,500              |
| 7,784               | 7,779               | 8,028               | 8,017               | 7,995               |
| 1,110               | 854                 | 877                 | 877                 | 872                 |
| 13,669,358          | 12,446,222          | 12,839,042          | 12,839,042          | 12,780,974          |
| 7,484               | 7,562               | 7,603               | 7,630               | 7,531               |
| 965                 | 1,019               | 1,026               | 1,026               | 1,026               |
| 4,954,627           | 4,989,788           | 5,149,089           | 5,149,089           | 5,148,489           |
| -                   | -                   | -                   | -                   | -                   |
| -                   | -                   | -                   | -                   | -                   |
| -                   | -                   | -                   | -                   | -                   |
| 17,391              | 17,366              | 17,371              | 17,171              | 17,143              |
| 1,113               | 584                 | 598                 | 579                 | 655                 |
| 13,630,934          | 7,876,300           | 11,165,654          | 7,811,970           | 8,108,448           |
| 7,353               | 6,929               | 6,920               | 6,871               | 6,855               |
| 990                 | 721                 | 759                 | 754                 | 754                 |
| 30,975,993          | 26,420,404          | 28,923,271          | 28,881,383          | 28,881,383          |
| <b>555,609</b>      | <b>537,985</b>      | <b>526,363</b>      | <b>515,368</b>      | <b>499,226</b>      |
| <b>6,646</b>        | <b>5,441</b>        | <b>5,431</b>        | <b>5,409</b>        | <b>5,538</b>        |
| <b>85,285,095</b>   | <b>75,810,974</b>   | <b>77,953,688</b>   | <b>73,853,916</b>   | <b>74,784,447</b>   |
| <b>3.3%</b>         | <b>2.2%</b>         | <b>2.1%</b>         | <b>3.2%</b>         | <b>1.3%</b>         |
| <b>22.1%</b>        | <b>0.2%</b>         | <b>0.4%</b>         | <b>-2.3%</b>        | <b>0.7%</b>         |
| <b>12.5%</b>        | <b>-2.7%</b>        | <b>5.6%</b>         | <b>-1.2%</b>        | <b>1.2%</b>         |

**Massachusetts Public Higher Education**  
**Enrollment and Degrees Conferred**  
**Last Nine Academic Years (Enrollment), Last Ten Years (Degrees)**

| Academic Year                              | Fall 2006       | Fall 2005       | Fall 2004       | Fall 2003       | Fall 2002       |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b><u>ENROLLMENT, TUITION AND FEES</u></b> |                 |                 |                 |                 |                 |
| <b><u>University System</u></b>            |                 |                 |                 |                 |                 |
| Undergraduate (FTE).....                   | 39,283          | 38,286          | 37,598          | 37,904          | 37,762          |
| Graduate (FTE).....                        | 8,906           | 8,549           | 8,494           | 8,494           | 8,334           |
| <b>System Enrollment.....</b>              | <b>48,189</b>   | <b>46,835</b>   | <b>46,093</b>   | <b>46,398</b>   | <b>46,097</b>   |
| <b>Tuition and Fees (per student)</b>      |                 |                 |                 |                 |                 |
| <b>Resident.....</b>                       | <b>\$ 9,000</b> | <b>\$ 8,697</b> | <b>\$ 8,437</b> | <b>\$ 6,801</b> | <b>\$ 5,798</b> |
| <b><u>State College System</u></b>         |                 |                 |                 |                 |                 |
| Undergraduate (FTE).....                   | 31,384          | 30,464          | 29,051          | 29,238          | 26,489          |
| Graduate (FTE).....                        | 4,352           | 4,258           | 8,658           | 8,360           | 7,296           |
| <b>System Enrollment.....</b>              | <b>35,736</b>   | <b>34,722</b>   | <b>37,709</b>   | <b>37,598</b>   | <b>33,785</b>   |
| <b>Tuition and Fees (per student)</b>      |                 |                 |                 |                 |                 |
| <b>Resident.....</b>                       | <b>\$ 5,855</b> | <b>\$ 5,448</b> | <b>\$ 5,100</b> | <b>\$ 4,590</b> | <b>\$ 3,743</b> |
| <b><u>Community College System</u></b>     |                 |                 |                 |                 |                 |
| Undergraduate (FTE).....                   | 49,347          | 48,555          | 50,972          | 51,067          | 49,483          |
| <b>Tuition and Fees (per student).....</b> |                 |                 |                 |                 |                 |
| <b>Resident.....</b>                       | <b>\$ 3,526</b> | <b>\$ 3,477</b> | <b>\$ 3,380</b> | <b>\$ 3,265</b> | <b>\$ 2,833</b> |
|  | 2007            | 2006            | 2005            | 2004            | 2003            |
| <b><u>DEGREES CONFERRED</u></b>            |                 |                 |                 |                 |                 |
| <b><u>University System</u></b>            |                 |                 |                 |                 |                 |
| Certificates (MD's).....                   | 268             | 260             | 167             | 150             | 146             |
| Associate's.....                           | 117             | 99              | 95              | 119             | 106             |
| Bachelors.....                             | 8,191           | 8,089           | 8,205           | 7,764           | 7,645           |
| Masters.....                               | 2,503           | 2,484           | 2,588           | 2,467           | 2,311           |
| Doctoral.....                              | 443             | 371             | 389             | 407             | 322             |
| <b>Total Degrees.....</b>                  | <b>11,522</b>   | <b>11,303</b>   | <b>11,444</b>   | <b>10,907</b>   | <b>10,530</b>   |
| <b><u>State College System</u></b>         |                 |                 |                 |                 |                 |
| Certificates.....                          | 615             | 556             | 540             | 490             | 535             |
| Bachelors.....                             | 6,207           | 5,885           | 5,549           | 5,525           | 5,545           |
| Masters.....                               | 2,201           | 2,190           | 2,048           | 2,157           | 2,053           |
| <b>Total Degrees.....</b>                  | <b>9,023</b>    | <b>8,631</b>    | <b>8,137</b>    | <b>8,172</b>    | <b>8,133</b>    |
| <b><u>Community College System</u></b>     |                 |                 |                 |                 |                 |
| Certificates.....                          | 2,297           | 2,422           | 2,278           | 2,281           | 1,947           |
| Associates.....                            | 7,942           | 8,024           | 7,993           | 7,670           | 7,184           |
| <b>Total Degrees.....</b>                  | <b>10,239</b>   | <b>10,446</b>   | <b>10,271</b>   | <b>9,951</b>    | <b>9,131</b>    |
| <b>Total All Systems - Degrees.....</b>    | <b>30,784</b>   | <b>30,380</b>   | <b>29,852</b>   | <b>29,030</b>   | <b>27,794</b>   |

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

| Fall 2001       | Fall 2000       | Fall 1999       | Fall 1998       | Change - 2006<br>from 1998 |                            |
|-----------------|-----------------|-----------------|-----------------|----------------------------|----------------------------|
| 37,961          | 37,101          | 37,093          | 35,759          | 9.9%                       |                            |
| 8,223           | 8,139           | 8,405           | 8,562           | 4.0%                       |                            |
| <b>46,184</b>   | <b>45,240</b>   | <b>45,498</b>   | <b>44,321</b>   | <b>8.7%</b>                |                            |
| <b>\$ 4,693</b> | <b>\$ 4,697</b> | <b>\$ 4,706</b> | <b>\$ 4,727</b> | <b>90.4%</b>               |                            |
| 623             | 26,791          | 27,058          | 28,157          | 11.5%                      |                            |
| 7,138           | 3,860           | 3,415           | 3,516           | 23.8%                      |                            |
| <b>7,761</b>    | <b>30,651</b>   | <b>30,473</b>   | <b>31,672</b>   | <b>16.6%</b>               |                            |
| <b>\$ 2,954</b> | <b>\$ 2,962</b> | <b>\$ 2,984</b> | <b>\$ 3,103</b> | <b>88.7%</b>               |                            |
| 46,756          | 44,098          | 43,094          | 41,490          | 18.9%                      |                            |
| <b>\$ 2,273</b> | <b>\$ 2,153</b> | <b>\$ 2,182</b> | <b>\$ 2,297</b> | <b>53.5%</b>               |                            |
| 2002            | 2001            | 2000            | 1999            | 1998                       | Change - 2007<br>from 1998 |
| 196             | 151             | 220             | 182             | 212                        | 26.4%                      |
| 111             | 110             | 124             | 109             | 151                        | -22.5%                     |
| 7,525           | 7,489           | 7,371           | 6,860           | 7,353                      | 11.4%                      |
| 2,165           | 2,332           | 2,368           | 2,180           | 2,277                      | 9.9%                       |
| 358             | 337             | 349             | 333             | 366                        | 21.0%                      |
| <b>10,355</b>   | <b>10,419</b>   | <b>10,432</b>   | <b>9,664</b>    | <b>10,359</b>              | <b>11.2%</b>               |
| 313             | 251             | 356             | 302             | 278                        | 121.2%                     |
| 5,096           | 5,166           | 5,374           | 5,298           | 5,285                      | 17.4%                      |
| 1,881           | 1,659           | 1,593           | 1,529           | 1,430                      | 53.9%                      |
| <b>7,290</b>    | <b>7,076</b>    | <b>7,323</b>    | <b>7,129</b>    | <b>6,993</b>               | <b>29.0%</b>               |
| 1,930           | 1,941           | 1,764           | 1,819           | 1,841                      | 24.8%                      |
| 6,939           | 6,958           | 6,914           | 6,762           | 6,949                      | 14.3%                      |
| <b>8,869</b>    | <b>8,899</b>    | <b>8,678</b>    | <b>8,581</b>    | <b>8,790</b>               | <b>16.5%</b>               |
| <b>26,514</b>   | <b>26,394</b>   | <b>26,433</b>   | <b>25,374</b>   | <b>26,142</b>              | <b>17.8%</b>               |

## Calculation of Transfers: Stabilization Fund

June 30, 2007  
(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended most recently by Chapter 61 of the Acts of 2007, which superceded certain parts of the Section 5c. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

|  |                     |
|--|---------------------|
| <b>I. Undesignated Budgeted Fund Balances before calculation of transfers:</b>   |                     |
| General Fund .....   | \$ 1,614,451        |
| Highway Fund .....   | (1,307,471)         |
| Workforce Training Fund .....  | (16,502)            |
| Massachusetts Tourism Fund .....   | (349)               |
| International Educational and Foreign Language Grant Program Fund .....  | -                   |
| Children's and Seniors' Health Care Assistance Fund .....  | -                   |
| <b>Consolidated undesignated fund balance / (deficit) in the operating Funds.....</b>  | <b>\$ 290,129</b>   |
| <b>II. Carryforward of 0.5% of tax revenue to the General Fund:</b>  |                     |
| 0.5% of Tax Revenue as Calculated on Schedule A .....  | 99,246              |
| <b>III. Consolidated Net Surplus</b>   |                     |
| Undesignated Operating Fund balance, less tax revenue carryforward to the General Fund and transfer to stabilization.....  | <b>\$ 190,883</b>   |
| <b>IV. If Consolidated Net Surplus is Greater than \$150,000,000, then transfer \$100,000,000 to Bay State Competitiveness Investment Fund.</b>  |                     |
| Transfer to the Bay State Competitiveness Investment Fund from the General Fund.....   | \$ 100,000          |
| <b>If Consolidated Net Surplus is Greater than \$50,000,000, but less than \$100,000,000 then transfer \$50,000,000 to Bay State Competitiveness Investment Fund. Otherwise, "Not Applicable."</b> |                     |
| Transfer to the Bay State Competitiveness Investment Fund .....  | Not Applicable      |
| <b>If Consolidated Net Surplus is less than \$50,000,000, then transfer the amount to the Stabilization Fund. Otherwise, "Not Applicable."</b>   |                     |
| Transfer to the Stabilization Fund .....   | Not Applicable      |
| <b>Total Transfers to Stabilization</b>  |                     |
| Undesignated Operating Fund balance, net of tax revenue carryforward to the General Fund.....  | 190,883             |
| <b>Total Transfers Required .....</b>  | <b>190,883</b>      |
| <b>Less: transfer to the Bay State Competitiveness Investment Fund .....</b>   | <b>(100,000)</b>    |
| <b>Total Transfers to the Stabilization Fund .....</b>   | <b>\$ 90,883</b>    |
| <b>Transfers to Stabilization Funded From:</b>   |                     |
| General Fund .....   | \$ 90,883           |
| Highway Fund.....  | -                   |
| Workforce Training Fund .....  | -                   |
| Massachusetts Tourism Fund .....   | -                   |
| International Educational and Foreign Language Grant Program Fund .....  | -                   |
| Children's and Seniors' Health Care Assistance Fund .....  | -                   |
| <b>Total Transfers to the Stabilization Fund .....</b>   | <b>\$ 90,883</b>    |
| <b>Remaining Balances in Budgeted Operating Funds after Transfers:</b>   |                     |
| General Fund .....   | \$ 1,423,568        |
| Highway Fund.....  | (1,307,471)         |
| Workforce Training Fund .....  | (16,502)            |
| Massachusetts Tourism Fund .....   | (349)               |
| International Educational and Foreign Language Grant Program Fund .....  | -                   |
| Children's and Seniors' Health Care Assistance Fund .....  | -                   |
| <b>Net Remaining Budgetary Fund Balances .....</b>   | <b>\$ 99,246</b>    |
| <b>Stabilization Balance Reconciliation:</b>   |                     |
| Balance as of July 1, 2006 .....   | \$ 2,154,664        |
| Investment income, certain tax revenues and other recoveries.....  | 89,474              |
| Transfers to Stabilization per calculation above.....  | 90,883              |
| <b>Stabilization Fund Balance .....</b>  | <b>\$ 2,335,021</b> |

## Calculation Of Transfers: Tax Reduction Fund

June 30, 2007  
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Sup

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers,  
to 15% of budgeted revenues and other financial resources:

|  |                  |
|--|------------------|
| Undesignated fund balance in the Stabilization Fund.....                   | \$ 2,335,021     |
| Allowable Stabilization Fund balance (per Schedule B).....                 | <u>4,292,382</u> |
| Stabilization Fund excess, if any, transferable to Tax Reduction Fund..... | <u>\$ -</u>      |

Part 2: Status of Stabilization Fund after transfers:

|  |                     |
|--|---------------------|
| Stabilization Fund balance.....                                      | \$ 2,335,021        |
| Transfer to Tax Reduction Fund.....                                  | <u>-</u>            |
| Stabilization Fund balance after transfer to Tax Reduction Fund..... | <u>\$ 2,335,021</u> |

Part 3: Status of Tax Reduction Fund after transfers:

|   |             |
|---|-------------|
| Tax Reduction Fund balance.....                 | \$ -        |
| Transfers from Stabilization Fund.....          | <u>-</u>    |
| Tax Reduction Fund balance after transfers..... | <u>\$ -</u> |

# MASSACHUSETTS GENERAL INFORMATION

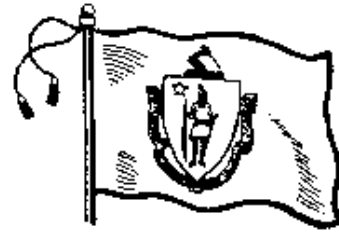
**Admitted to Union (6<sup>th</sup> State):** 1788  
**Population:** 6,437,193

**Capital:** Boston  
**Nickname:** Bay State

**The State Seal**



**The State Flag**



The State Seal, adopted by Governor John Hancock and the Council on December 13, 1780 and made official by the General Court on June 4, 1885, is circular and bears a representation of the arms of the Commonwealth encircled with the words "Sigillum Reipublicae Massachusettensis" (Seal of the Republic of Massachusetts). The arms, according to legislative enactment, consists of "a shield having a blue field or surface with an Indian thereon, dressed in a shirt and moccasins, holding in his right hand a bow, and in his left hand an arrow, point downward, all of gold; and in the upper corner of the field, above his right arm, bent at the elbow, clothed and ruffled, with the hand grasping a broadsword."

The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

**The State Flower**



**The Mayflower**

**The State Fish**



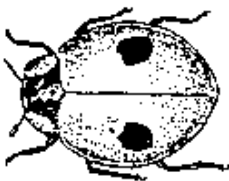
**The Cod**, a soft-finned fish, usually 10-20bs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

**The State Bird**



**The Black Capped Chickadee**

**The State Insect**



**The Lady Bug**

**The State Tree**



**The American Elm** was adopted as the official tree March 21, 1941 to commemorate the fact that General George Washington took command of the Continental Army beneath one on Cambridge Common in 1775.

**The State Dog**



**The Boston Terrier**, the first purebred dog developed in America (1869), is a cross between an English bulldog and an English terrier.

**Beverage:** Cranberry Juice  
**Dessert:** Boston Cream Pie

**Muffin:** The Corn Muffin  
**Cookie:** Chocolate Chip

**Horse:** The Morgan Horse  
**Bean:** Navy Bean



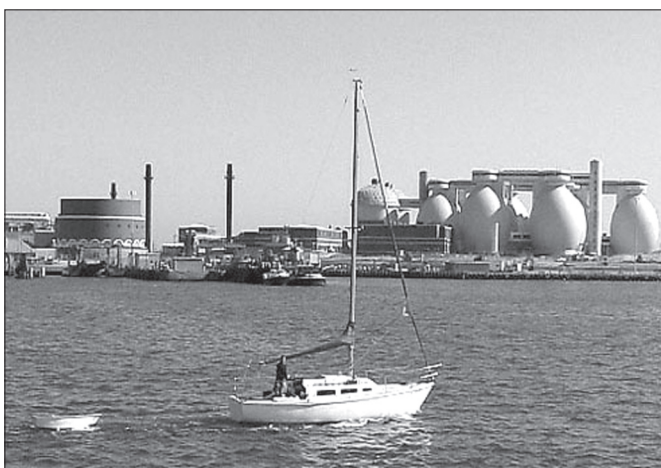
Boston Harbor Islands consist of 34 distinct islands and peninsulas over 50 square miles of Boston Harbor. In 1946, Apple Island and Governor's Island were subsumed into land reclamation for Logan International Airport.

*Courtesy of Wikipedia  
The Free Encyclopedia*

The Boston Harbor Islands is fortunate to have a strong Friends group that encourages public use of the islands, balanced with the need to protect their fragile ecosystem and historic environment. The Friends take great pride in serving the national park with its 34 islands spread over 50 square miles of Boston Harbor. The Friends have earned the respect of environmental agencies and the public for their work in protecting and promoting recreational use of the islands. In recent years the excellence of the Friends of the Boston Harbor Islands has been recognized by state, local and national organizations. FBHI was recognized by the National Park Service as an outstanding volunteer program in 2002 when the organization received the George B. Hartzog, Jr. Award for Outstanding Volunteer Service, honoring the Friends volunteers as the country's most vibrant and dedicated Volunteers-in-Parks Program. The Friends also received the President's award from the National Association of State Park Directors.



*Courtesy of The Volunteers and Friends of the Boston Harbor Islands*



*Courtesy of Boston Harbor Islands, A National Park Area*

Massachusetts Water Resource Authority on Deer Island has transformed the water quality surrounding Boston Harbor Islands National Recreation Area. Once claimed to be one of the dirtiest harbors in America, the waters and shores are clean again.

Why is Deer Island not an island? Once it was, but it has been connected to the mainland since the famous 1938 hurricane. The island has been used by Native Americans, quarantined immigrants, farmers, orphans, paupers, military personnel, and tens of thousands of prisoners at the now-demolished county house of corrections. The new waste water treatment plant continues long-standing use of the island for sewage disposal facilities, which began in the late 1800s.

During King Philips War, a Native American armed resistance to 17th-century European colonization, Deer Island became a place of internment in the winter of 1675-76 for about 500 Native Americans whom Europeans had removed by force from their homes and villages. Without adequate food or shelter, many died. After the war, other Indians were imprisoned on Deer Island. Native Americans return to Deer Island every year in October to solemnly commemorate their ancestors suffering in this sorrowful historical chapter.

In the 1800s Deer Island was the landing point for thousands of Irish immigrants, many sick and poverty-stricken. These are only a few of the fascinating historical tales from Deer Island.

*Courtesy of Boston Harbor Islands, A National Park Area*



*“The landscape belongs to the person who looks at it.”*

*Ralph Waldo Emerson*



***Boston Harbor Islands***

*Spectacle, one of 34 islands that make up Boston Harbor Islands National Park Area, is an island with a varied and colorful past. For thousands of years Native Americans frequented the island to fish and hunt. Once colonists arrived, Spectacle was used for cattle grazing and tree harvesting. From 1717 to 1737 the island hosted a quarantine hospital and was a stop for ships carrying immigrants to Boston.*